State of Montana
Office of the Legislative Auditor

REPORT TO THE LEGISLATURE

DEPARTMENT OF COMMERCE

Financial-Compliance Audit for the

Two Fiscal Years Ended June 30, 1987

This report contains recommendations for improving compliance and management controls. These recommendations include:

- Establishing a control system to monitor compliance with state laws and regulations
- Ensuring the department's compliance with federal rules and regulations
- Maintaining accounting records in accordance with generally accepted accounting principles

Direct comments/inquiries to:
Office of the Legislative Auditor
Room 135, State Capitol
Helena, Montana 59620

87-18

FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Office of the Legislative Auditor to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations which could have a significant financial impact. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act of 1984 and OMB Circular A-128 require the auditor to issue certain financial, internal control, and compliance reports regarding the state's federal financial assistance programs, including all findings of noncompliance and questioned costs. The Office of the Legislative Auditor issues a biennial Single Audit Report for the state of Montana which fulfills those requirements on a statewide basis. The audit report presented here is therefore not intended to meet all reporting requirements of the Single Audit Act of 1984 and OMB Circular A-128.

STATE OF MONTANA

Office of the Legislative Auditor

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June 1988

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance report on the Department of Commerce's financial activity for fiscal years 1985-86 and 1986-87.

The report contains recommendations concerning compliance with state and federal laws and regulations, improvements in internal controls, and maintenance of accounting records in accordance with generally accepted accounting principles.

The department's written response to the audit recommendations is included in the back of the audit report. We thank the director and the department staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

Scott A. Seacat
Legislative Auditor

Office of the Legislative Auditor

DEPARTMENT OF COMMERCE

Financial-Compliance Audit for the
Two Fiscal Years Ended June 30, 1987

Members of the audit staff who participated in this audit are Vickie Rauser, Laurie Andres, Laurie Evans, Geri Huschka, Wayne Kedish, Rich McRae, and Lisa Warburton.

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William J. Fogarty	Administrator Transportation Division
Michael D. Ferguson	Administrator Aeronautics Division
Fred Flanders	Administrator Financial Division
Carolyn Doering	Administrator Management Services Division
Carol Daly	Administrator Business Assistance Division
Newell Anderson	Administrator Local Government Assistance Division
Dave Lewis	Executive Director Investment Division
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Sam Hubbard	Executive Director Montana Science and Technology Alliance
Richard Kain	Administrator Housing Division
Diana Dowling	Director Montana State Lottery
John Wilson	Administrator Montana Promotion Division
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Donald Clayborn	Coordinator Coordinator of Indian Affairs

SUMMARY OF RECOMMENDATIONS

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SUMMARY OF RECOMMENDATIONS (continued)

INTRODUCTION

We performed a financial-compliance audit of the Department of Commerce for the two fiscal years ended June 30, 1987. The accompanying financial schedules include activity related to the Board of Housing (BOH), the Montana Economic Development Board (MEDB), and the Montana Health Facilities Authority (MHFA) which are audited separately each fiscal year. The audits of MEDB and MHFA for fiscal years 1985-86 and 1986-87 were performed by our office; the BOH audit was performed by a private CPA firm under contract with our office for each of the two fiscal years.

This audit of the department also included the Montana Lottery which began its first game June 24, 1987. We included the fiscal year 1986-87 Lottery activity in this audit due to the start-up costs incurred during the year. State law requires the Lottery to have an annual financial audit, the first of which will be for fiscal year 1987-88. In addition to the financial audit, state law also requires the Office of the Legislative Auditor or its representatives to observe lottery drawings, to complete a performance audit of security after nine months of operation and every two years thereafter, and to test compliance with applicable statutes. We have contracted the Lottery audit work required for drawings and the financial audit for fiscal year 1987-88. We will perform the security and compliance audits.

BACKGROUND

The Department of Commerce (department) consists of several divisions as well as several units attached to the department for administrative purposes. At June 30, 1987, the department had 292 employees on its payroll, including part-time and temporary employees. The authorized full-time equivalent (FTE) for the 1987 biennium was approximately 276; authorized FTE for the 1989 biennium is approximately 344.

The department's organization chart as of July 1987 is on page 5. Since the previous audit report was issued, the department has received responsibility for additional activities. The most significant of these changes are the transfer of the Board of Investments from the Department of Administration to the department as of July 1, 1987, and the creation of the Montana State Lottery. Other changes include transfer of the Board of Outfitters from the

Department of Fish, Wildlife and Parks as of October 1, 1987; the Video Gaming activity from the Department of Revenue as of April 1, 1987; and the Tramway licensing function from the Department of Administration as of July 1, 1987. Following is a description of the various divisions and offices administered by the department.

Director - administers the department and its divisions. Attached to the director's office are the Management Services Division, the Indian Affairs Coordinator, the County Printing Board and the Office of Legal and Consumer Affairs. Also attached is the Office of Research and Information Services which includes the Census and Economic Information Center and the Governor's Council on Economic Development, the Horse Racing Bureau, and the Video Gaming Bureau. The director is also the chairman of the Montana State Banking Board.

Business Regulation and Licensing Division - regulates and licenses functions performed by the Building Codes, Milk Control, Professional and Occupational Licensing, and the Weights and Measures Bureaus. The division also licenses private employment agencies and passenger tramways.

Management Services Division - performs the centralized services for the department in the areas of purchasing, accounting, budgeting, payroll, personnel, training, records management, and internal department procedures. The division also provides data processing systems design, analysis, and development for activities within the department.

Transportation Division - provides technical, legal, planning, and financial assistance to transportation users, providers and local governments. The staff also contribute recommendations for development of Montana's transportation system. This is accomplished through various state and federal programs of technical and financial assistance designed to assist shippers, agriculture, the rail and trucking industries, inter-city passenger carriers, urban public transportation, and other transportation providers and users. The division administers the State Rail Plan and maintains Montana's eligibility for general railroad assistance funding.

Aeronautics Division - consists of the Airport/Airways Bureau, the Safety and Education Bureau, and the Aeronautics Board. The Airport/Airways Bureau provides technical and financial assistance to communities in airport development, communications, aviation safety and airport planning; and operates and maintains the state-owned system of airports, navigational aids, and communications facilities. The Safety and Education Bureau provides for statewide aerial search and rescue, enforces state law on pilot and aircraft registration, and provides for various education and training programs.

Montana Promotion Division - promotes Montana as a vacation destination and industrial and business location site. Produces publications, print, radio, television, and outdoor and collateral advertising. Provides

information services for inquiring public, and serves as a liaison with the private sector. The division also promotes Montana as a film location for motion pictures and commercials.

Business Assistance Division - performs comprehensive services that constitute the direct technical assistance component of the Build Montana Economic Development effort. Through seven programs, the division assists in the promotion and marketing of Montana products on a local, state, regional and national basis; helps businesses market their products outside the United States through an aggressive International Trade Program; provides technical assistance to new and existing Montana businesses with financial packaging and planning; and serves as a single contact for business licensing. The division also provides federal contracting opportunities through the contract procurement market system; conducts promotion and recruitment efforts to relocate out-of-state firms; and works closely with local development organizations to retain, expand and recruit business. The division supervises staffing of the Montana Ambassadors.

Financial Division - consists of the State Banking Board and staff who are responsible for chartering, licensing, supervising, and examining state banks, saving and loan associations, credit unions, consumer loan licensees, and sales finance companies and Montana development companies/boards.

Local Government Assistance Division - operates twelve direct service and financial assistance programs. The Community Development Bureau provides assistance to local governments, private developers, and citizens in the areas of: public works, planning and financing, land use and development regulation, capital improvement planning, local government issues, research and development, and economic development. The bureau includes the Coal Board, the Hard Rock Mining Board, the Community Development Block Grant Program and the Technical Assistance Program. The division administers the Federal Section 8 Housing Program which provides decent, safe and sanitary housing to eligible low-income families and individuals. The division also administers the Local Government Audit Program which performs financial and compliance audits of Montana counties, cities, towns, school districts and special taxing districts; and the Local Government Systems Program which exists to develop, implement, and maintain uniform budgetary, accounting and reporting systems for cities, towns, counties, school districts, and single purpose districts. The District Court Reimbursement Program is the responsibility of this division.

Montana State Lottery - is responsible for the promotion, regulation and enforcement of the Montana State Lottery. The Lottery Commission is responsible for adopting administrative rules relating to the lottery.

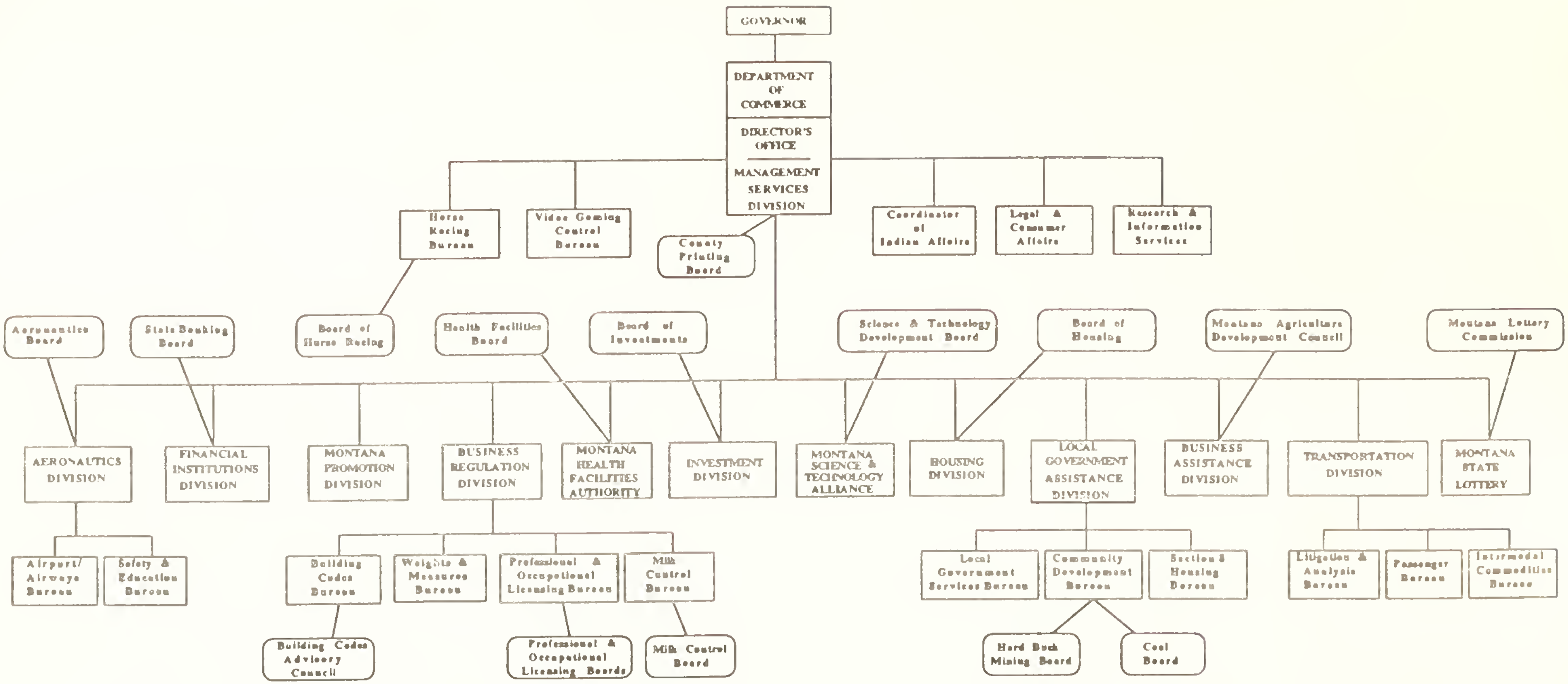
Housing Division - The Board of Housing is established to provide decent, safe, sanitary housing in the state within the financial capabilities of lower income persons and families. Public moneys are made available

through the issuance of revenue bonds to assist private enterprise and governmental agencies in meeting critical housing needs.

Montana Health Facilities Authority - issues revenue bonds and notes to finance capital projects for public and private nonprofit health facilities at borrowing rates below those otherwise available.

Montana Science and Technology Alliance - created to stimulate economic development in the state by providing financial support in the form of investments to organizations and companies seeking to develop technology-based businesses.

Investment Division - has sole authority to invest funds in accordance with the Montana Constitution and statutory requirements. The Board of Investments administers the Coal Tax Loan Program, the Montana Capital Companies Program, the Industrial Development Revenue Bond Program, and the Municipal Finance Program. The board manages programs which make loans, provide for the issuance or backing of bonds and issue tax credits to encourage economic development in Montana.



JULY 1987
ORGANIZATION CHART

DEPARTMENT OF COMMERCE

Keith L. Colbo
KEITH L. COLBO, DIRECTOR

Ted Schwinden
TED SCHWINDEN, GOVERNOR

PRIOR AUDIT RECOMMENDATIONS

We performed the audit of the department for the two fiscal years ended June 30, 1985. The audit report contained 14 numbered recommendations comprised of 19 individual recommendations of which 18 were still applicable to the department. The department concurred with 15 and partially or conditionally concurred with 3. The department implemented 12, partially implemented 5, and did not implement 1. The recommendation not implemented dealt with a central cash receiving function. The department requested the necessary funding from the 1987 Legislature but did not receive it.

Prior audit recommendations not fully implemented concern submitting federal reports on a timely basis, establishing procedures to ensure all revenues are properly accrued at year-end, depositing cash receipts on a timely basis, and recording all financial activity on the Statewide Budgeting and Accounting System (SBAS). These issues are discussed on pages 11, 18, 19, and 21, respectively. A prior audit recommendation, not fully implemented, which concerns establishing procedures to reasonably estimate revenues is not included in this report but has been communicated to department management.

The Local Governmental Services (LGS) function was transferred from the Department of Administration (DofA) to the department as of July 1, 1983. As we indicated in the department's previous audit report, we reviewed recommendations directed toward LGS in the fiscal year 1982-83 DofA audit. Those recommendations dealt primarily with the audit function not complying with generally accepted auditing standards (GAAS) when performing audits of local governments. We contacted LGS and requested the division administrator communicate to us the status of those recommendations. Based on that response and our review of LGS audits it appears LGS has made substantial improvements in documenting the audit work completed. We also noted areas where further improvements could be made. LGS officials informed us the audit function was in the process of implementing an in-house quality control function to monitor its compliance with GAAS and would also be requesting a peer review in fiscal year 1988-89. Both of these procedures should assist LGS in continuing to improve its compliance with GAAS. Therefore, we make no further recommendations to LGS in this report.

FEDERAL COMPLIANCE ISSUES

We tested compliance with federal laws including allowability of expenditures for specific grants. Our procedures were designed to satisfy requirements of the Single Audit Act of 1984 and Office of Management and Budget (OMB) Circular A-128. We specifically tested compliance and expenditure allowability for grants funded by the U.S. Department of Housing and Urban Development (HUD) for the Section 8 Housing Program and the Community Development Block Grant. The following three sections discuss our concerns relating to federal grants. Each section indicates the Catalog of Federal Domestic Assistance (CFDA) number by which the federal government identifies the program.

Federal Section 8 Housing - CFDA #14.156

Initial Gross Rents - The department operates a federal program known as Section 8 Housing, which provides housing assistance to low income families. The program consists of two primary areas referred to as "existing" and "moderate rehabilitation" housing. Expenditures in this program totalled approximately $7.5 million in fiscal year 1985-86 and $8.6 million in fiscal year 1986-87. These expenditures include administrative costs and monthly payments to approximately 2,600 landlords. We examined a sample of 30 Section 8 payments made to landlords during the audit period. We checked to ensure the initial rent established for the housing unit was not in excess of the established federal Fair Market Rent (FMR) for the county. In two instances, the rent exceeded the FMR by $44/month and $7/month, respectively. Federal regulations state the fair market rent established by federal regulations generally shall not exceed gross rent which is equivalent to the rent requested by the owner plus utilities. Federal regulations do allow a housing authority to approve initial rents, on a unit-by-unit basis, which exceed the FMR by up to 10 percent for up to 20 percent of the authorized units.

According to Section 8 personnel, both errors were the result of clerical or review oversights. Therefore, the Section 8 personnel did not make a conscious decision to approve rents in excess of FMR. The errors resulted in overpayments of $440 for fiscal year 1984-85, $632 for fiscal year 1985-86, and $588 for fiscal year 1986-87. Because these payments were not in accordance

with federal regulations, we question their allowability for federal reimbursement.

The Section 8 Housing function is in the process of converting to a new computer system. While the new system should reduce clerical errors, it will not necessarily eliminate them. We discussed with Section 8 personnel the possibility of having an on-screen edit message appear if the gross rent exceeds FMR when the tenant begins participation in the program. We also discussed the creation of an edit report which would list any tenant whose rent exceeds FMR. We recognize there are one time costs associated with the implementation of any of the above edits which would include software enhancement and/or personnel time. However, we believe the benefits outweigh the costs. Such enhancements to the Section 8 Housing assistance payments system will help the department ensure the Section 8 Housing program rents are established in accordance with federal regulations.

RECOMMENDATION #1

WE RECOMMEND THE DEPARTMENT IMPLEMENT PROCEDURES TO ENSURE THE GROSS HOUSING RENTS COMPLY WITH FEDERAL REGULATIONS.

Housing Assistance Payment Warrants - Each month, for various reasons, Section 8 personnel hold back some warrants for housing assistance payments to landlords. For example, a warrant may be held because the landlord has not made repairs needed to bring the housing unit up to housing quality standards, or the landlord has not signed the lease and contract after a yearly reexamination. Once the repairs are made or the contracts signed, the warrant is mailed to the landlord. While performing audit work at Section 8, we noticed Section 8 personnel do not keep the "hold" warrants in a secure area such as a locked file cabinet. Because the warrants are not adequately safeguarded, the possibility of the warrants being lost or stolen is greater. The value of the "hold" warrants each month can be as high as $10,000.

RECOMMENDATION #2

WE RECOMMEND THE DEPARTMENT ADEQUATELY SAFEGUARD HOUSING ASSISTANCE PAYMENT "HOLD" WARRANTS.

Payment Verification - During the audit period Section 8 personnel had a procedure designed to ensure proper payments were made for moderate rehabilitation housing assistance. Personnel utilized a batch balancing system to reconcile the total payments each month to the total payments made the previous month. During our testing of this procedure, we noted that personnel either did not always reconcile or did not document the reconciliation of the differences between the payments made for one month and those of the previous month. Differences as great as $1,880 did not appear to have been resolved.

Section 8 personnel have since changed systems by which housing assistance payments are generated. The new system does not provide for a batch balancing procedure and Section 8 personnel did not implement any replacement procedures. Section 8 officials should implement procedures to ensure landlords receive the proper payments. Such procedures could include periodically comparing client files to payments made and taking any necessary corrective action.

RECOMMENDATION #3

WE RECOMMEND THE DEPARTMENT IMPLEMENT PROCEDURES TO ENSURE MONTHLY HOUSING ASSISTANCE PAYMENTS ARE PROPER.

Accounts Receivable - There are occasions where housing assistance payments are made to landlords in error. For example, if a tenant vacated a housing unit on April 25, the May payment might still have been sent to the landlord because the paperwork had not been processed. Section 8 personnel must receive the paperwork by the 20th of the month to avoid sending the next month's rent. Under present procedures, Section 8 notifies the landlords and requests them to return the overpayments.

Section 8 officials do not request the department's Management Services Division to establish an account receivable when the overpayment occurs, nor is any receivable established at year-end for outstanding overpayments. At fiscal year-end 1986-87, the overpayments due from landlords totalled $7,227. Section 8 officials stated the receivable is not recorded on the accounting records until after two notices have been sent to the landlords. If payment is not received after the second notice, the account is designated as uncollectible and turned over to the Department of Revenue for collection. In order to reflect the proper Section 8 Housing revenues and expenditures on the accounting records at fiscal year-end, Section 8 officials should ensure accounts receivable are properly recorded on the accounting records at fiscal year-end.

RECOMMENDATION #4

WE RECOMMEND THE DEPARTMENT ESTABLISH ACCOUNTS RECEIVABLE ON ITS ACCOUNTING RECORDS FOR ALL SECTION 8 HOUSING ASSISTANCE OVERPAYMENTS.

Community Development Block Grant (CDBG) - CFDA #14.228

Federal regulations require the department to prepare a yearly performance report for the CDBG. When preparing the federal fiscal year 1984-85 performance report, the CDBG officials did not use a consistent cutoff date to gather financial information for the various projects included in the report. For example, some financial information was compiled for the period ending August 15, 1985, and other information for the period ending September 30, 1985. The federal HUD program monitor stated in a letter that states may choose their own cutoff period for the compilation of information in the CDBG performance reports. A CDBG program officer stated that August 15 was selected as the cutoff date but they could not compile all the information at that time so some financial information was compiled as of September 30. The date on the report is August 15.

RECOMMENDATION #5

WE RECOMMEND THE DEPARTMENT COMPILE FINANCIAL INFORMATION USING A CONSISTENT CUTOFF DATE FOR THE ANNUAL COMMUNITY DEVELOPMENT BLOCK GRANT PERFORMANCE REPORTS.

General Federal Reporting Requirements

When the department prepared the fiscal year 1986-87 Section 8 Certificate program (CFDA #14.156) report, it reported administrative expenditures as $207,811 when the actual expenditures were $207,118. The overstatement of $693 was caused by a transposition error when department personnel compiled the grant expenditure information. The transposition error could result in an overreimbursement from the federal government. The department should ensure the proper amounts are recorded on federal reports.

The department submitted a federal report entitled "Voucher Payment of Annual Contribution and Operating Statement" on September 3, 1987. HUD requires this Section 8 report to be submitted no later than the 20th of the month following the close of the state fiscal year. The state's fiscal year 1986-87 accounting records were closed on July 28, 1987 so the report was due approximately August 20, 1987. A department official indicated that it is difficult to have this report prepared within the given time frame due to all of the work required at the beginning of a new fiscal year.

Another report, a quarterly financial status report to the Economic Development Administration (CFDA #11.302), was filed two months after the due date. A department official stated the financial status report was not submitted on time because there was no financial activity for the quarter the report covered.

The prior audit report also contained a recommendation dealing with timely submission of federal reports.

RECOMMENDATION #6

WE RECOMMEND THE DEPARTMENT:

A. CORRECT THE ERROR ON THE SECTION 8 REPORT.

B. SUBMIT REPORTS WITHIN THE TIME FRAME ESTABLISHED BY THE FEDERAL GRANTOR AGENCY.

STATE COMPLIANCE

During the course of our tests of state compliance we identified the following instances of noncompliance with state laws and policies as set forth in the Montana Codes Annotated (MCA), the Administrative Rules of Montana (ARM), and the Montana Operations Manual (MOM).

Contracted Services

Our office recently completed a performance audit of contracted services for fiscal year 1985-86. The audit included several state agencies, one of which was the Department of Commerce. In general, the audit indicated contracts appear to be effective, amounts and purposes are reasonable, and modifications are reasonable and not excessive. Results of testing at the department indicate the need for some improvements in the area of contracted services administration.

The department does not always include requirements established in state policy in its contracts. Of the 65 contracts reviewed, 35 did not contain items such as liaison, venue, certification with workers' compensation, agency assistance, schedule of performance, assignment, modification, and ownership. Certification of workers' compensation coverage did not exist for 24 contracts. Department officials stated if certification is not provided, the department automatically provides coverage. This implies the state is making unnecessary expenditures of state funds to provide coverage which should, in fact, have been provided by the independent contractor. Injuries occurring in these cases will be charged against the state's accident record when they should have been charged against the contractor's accident record. There may even be cases of duplicate coverage if the contractor provides coverage but did not certify this to the department. Rather than automatically providing coverage, the department should obtain the required certification.

The department paid eight contractors on a regular wage basis, exerted control over their duties, paid Workers' Compensation/Unemployment Insurance, and provided office equipment and work space. These factors result in an employer/employee relationship. In those cases where an employer/employee relationship exists when the department's intention was an independent

contractor relationship, the state is potentially liable for other employee benefits and withholding.

The department entered into several contracts without following state purchasing procedures. Section 18-4-221, MCA, requires the Department of Administration's Procurement and Printing Division to "procure or supervise the procurement of . . . services needed by the state . . . except those which we specifically delegated to user agencies." The performance audit indicated although the department has policies and procedures concerning the use of contracted services, these guidelines cover only internal handling, not the actual content of the contracts. The department could improve its compliance with contracted services regulations. The department should implement additional policies and procedures to ensure contracted services expenditures satisfy applicable state laws and policies.

RECOMMENDATION #7

WE RECOMMEND THE DEPARTMENT IMPLEMENT PROCEDURES TO ENSURE COMPLIANCE WITH CONTRACTED SERVICES LAWS AND REGULATIONS.

Indirect Cost Rates

The department's Management Services Division negotiates an indirect cost recovery rate each fiscal year with the federal government. Section 17-3-111, MCA, requires state agencies to try to recover, to the fullest extent possible, indirect costs of federal assistance programs. When calculating the fiscal year 1985-86 indirect cost rate, the division did not account for a carry-forward adjustment from previous years and thus did not collect as much in indirect costs as it could have. Division personnel responsible for the calculation stated the carry-forward adjustment was inadvertently left out of the plan. This was due primarily to a change in procedure when the division automated the plan for the first time in fiscal year 1985-86. The error affects all federal programs. The department's primary federal programs are the HUD Section 8 Housing Program (CFDA #14.156) and the HUD Community Development Block Grant (CFDA #14.228).

The amount of undercollection in fiscal year 1985-86 was $57,676 and $148 in the internal service fund and general fund, respectively. The division included the carry-forward adjustment in its fiscal year 1987-88 indirect cost proposal.

RECOMMENDATION #8

WE RECOMMEND THE DEPARTMENT CONTINUE TO REVIEW ITS INDIRECT COST PROPOSALS TO ENSURE ALL CARRY-FORWARD ADJUSTMENTS ARE INCLUDED.

Other State Compliance Issues

The situations discussed below are instances where the department or its administratively attached boards were not in compliance with the referenced regulations and policies. The number of instances of noncompliance among the various boards and divisions indicates the need for a control system whereby the department and its divisions can monitor compliance. A compliance control system is particularly important for an agency the size of the department because of the complexity and wide range of the activities for which it is responsible.

1. Horse Racing licensees do not remit 1% of gross receipts and 2% of exotic wagering receipts in accordance with state law and state policy. Section 23-4-304, MCA, requires the licensees to pay 1% of gross receipts to the department within five days after receipt. Section 8.22.1623, ARM, states the licensee shall pay to the department 2% of all betting money derived from exotic wagering within five days after collection. According to department personnel the practice has always been for the licensees to remit the money to the department at the end of the race meet; licensees find it too cumbersome to remit money within five days of collection. Department personnel believe the board considered seeking legislation to amend the statute in 1983, but no action was taken. Department personnel also believe the intent of the law was to make the deposits at the end of the meets.

2. The Board of Horse Racing members were paid $50 per day plus travel expenses during the audit period. General statutes governing a board member's reimbursement provide for $50/day plus travel expenses while on state business unless otherwise provided by law. The board's position is that the general statutes apply. However, section 23-4-102, MCA, states these board members may be

reimbursed $25 per day plus travel expenses. Board members were overcompensated by a total of $4350 during fiscal years 1985-86 and 1986-87.

3. The Building Codes Division paid its advisory council members $50 per day for each day they were engaged in the performance of council duties during most of the audit period. Section 2-15-122, MCA, states advisory council members shall be paid an amount not to exceed $25 a day plus travel expenses. Personnel at the division were not aware that the council members should have received $25 as they believed the reimbursement was the same as for a member of a board. Council members were overcompensated by a total of $175 during fiscal year 1985-86. The council held no meeting during fiscal year 1986-87. Division personnel have since taken steps to ensure the council members are paid the amount specified by law.

4. The Health Facilities Authority members were paid $50 per day plus travel expenses during most of the audit period. Section 90-7-201(3), MCA, prior to being amended by the 1987 Legislature, stated the members of the authority were entitled to receive compensation for necessary expenses but were not entitled to receive the $50 compensation described above. An amendment to this statute, effective March 31, 1987, allows the members to receive $50 per day as compensation plus expenses. Authority members were overcompensated by $2050 in fiscal year 1985-86 and $1150 in fiscal year 1986-87.

5. The department paid $521 more than it should have for a Health Facility Authority board member's travel expenses. State travel regulations require transportation shall be the most economical in terms of direct cost to the state and the employee's time away from the office, and all commercial air travel shall be by the least expensive source available. The department reimbursed a board member $920 for a first-class round trip airfare and paid $218 for another employee's round trip coach airfare for the same trip in May 1987. The overpayment is the amount reimbursed to the board member of $920 less the price of the coach airplane ticket of $218, less $181 for lodging, meals, and the statutory $50 per day board member's compensation. The board member chose to make the travel arrangements due to special circumstances. The department believed it was reimbursing the board member for a coach class airfare.

6. The Aeronautics Division did not notify the Division of Workers' Compensation of air search and rescue volunteers. Therefore, the volunteers were not covered by Workers' Compensation insurance as required by section 67-2-105, MCA. The department must have each search and rescue volunteer covered by the Workers' Compensation Act.

7. The Board of Private Security Patrolmen and Investigators has not adopted rules to provide for refunding of any fees collected.

Section 37-60-202(3), MCA, requires the board to adopt and enforce reasonable rules for establishing application and examination fees for original or renewal licenses, registration, and identification cards, and to provide for refunding of any such fees. Because rules for providing refunds do not exist, the potential for inconsistent refunding exists.

8. The Board of Private Security Patrolmen and Investigators meets at least annually; however, it does not hold an election each year for the chairman and secretary. According to the board's administrative assistant, the board has discussed the positions every year but has been satisfied with the present chairman and secretary and has not considered it necessary to re-elect them annually. These discussions have not been documented in the board's minutes. Section 37-60-201, MCA, states the board is to meet annually and elect a president and secretary from among the seven members.

9. Approximately two years ago the Division of Aeronautics determined that the amount of liability insurance required for commercial air operators would be the same as that required in federal regulations. Section 67-3-402, MCA, requires the department to establish reasonable rates. The division did not revise the administrative rule which implements the statute (by publicizing the amount of liability insurance required) to reflect the currently enforced coverage until we brought the inconsistency to its attention. The rule was revised as of September 30, 1987.

10. The Building Codes Division has not implemented standard procedures for power suppliers to notify it when an installation has been energized. Section 50-60-606, MCA, states, "Immediately after an installation has been energized, the power supplier shall deliver to the department of commerce the inspection tag covering the installation." Building codes inspectors put a tag on an installation after they have inspected it. The tags have "Do Not Remove" printed on them and building codes personnel want the tags left on the installation to provide evidence the unit has been inspected. However, by not being able to remove the tags to send to the department notifying them of an energized installation, the department is not in compliance with the above referenced law. The department could develop a two part tag which would allow for documenting both inspections and notifications. Another option is to seek legislation to amend or repeal section 50-60-606, MCA.

11. The Board of Social Workers has not adopted rules of professional and ethical standards for licensed masters of social work as required by section 37-22-201, MCA. Not having written rules for professional and ethical standards for social workers creates a potential for inconsistent decisions regarding the licensing of social workers.

12. In fiscal year 1985-86, the Board of Social Workers issued renewal notices at $75 for an annual renewal rather than $150 for a biennial

renewal period. The Administrative Rules of Montana (ARM) state that the biennial renewal fee shall be $150. According to the board's administrative assistant, the renewal notices for professional counselors were sent to the social workers. The board had to obtain an inter-entity loan of $11,000 to cover its expenses for fiscal year 1985-86 because it did not collect the proper amount of license fees. In October 1987, the board sent a letter to all social workers explaining the error, and requested the payment of funds to equal the total renewal fees as established in the ARMs.

13. Section 8.70.1401, ARM states the fee for a fireworks wholesaler's permit is $110; however, in fiscal year 1986-87, the department charged only $55 for the permit. A department official stated the reason for charging the lower fee was because there were approximately twice as many applicants as had been anticipated. The official stated further if the department had charged the fee stated in the ARM, it would have violated section 50-37-104(3)(a) which requires the fee to be set commensurate with costs. Since the department set the original fee based on a good faith effort to cover costs, the applicants should have been charged $110. The department could then have revised subsequent years' fees. The official indicated to us the ARM would be revised in July 1987; however, as of November 20, 1987, the ARM has not been revised.

The instances of noncompliance described above could have been prevented or detected if the department had had a functioning control system to ensure compliance with state laws and regulations. Such a system should include a periodic review of the applicable statutes and administrative rules. This review would provide assurance of compliance and provide for detection of needed changes to laws or rules.

RECOMMENDATION #9

WE RECOMMEND THE DEPARTMENT IMPLEMENT A CONTROL SYSTEM WHICH WILL PROVIDE ASSURANCE OF COMPLIANCE WITH APPLICABLE STATUTES AND ADMINISTRATIVE RULES.

INTERNAL CONTROL

We reviewed the department's compliance with the internal control procedures it has developed to ensure financial transactions are properly approved and processed. During our review we noted several instances where the department did not follow its procedures or should implement procedures.

These instances deal with the coding on revenue and expenditure transactions and timely deposits of cash receipts.

We traced an initial sample of 50 revenue transactions from the accounting records to the source documents and noted 2 of these were not processed as coded on the source document. The department's usual practice is to note any changes made to the transactions after they have been submitted for processing either on the document itself or on an edit report attached to the document. Neither procedure was used on the transactions in question. In the first case the department credited the wrong special revenue account with revenue. In the second case the transaction was properly recorded on the accounting records but there was no evidence to indicate how this had happened. The department should follow its procedures to ensure transactions are completely and accurately processed.

We noted three instances where the department did not recognize revenue in the proper fiscal year. Similar issues were reported in the prior audit report. Two of the instances relate to the Board of Horse Racing; the third relates to Video Gaming. The Board of Horse Racing received revenues for races held in May and June, 1986 and 1987 early in July of each year. However, the board did not inform the Management Services Division as to which year the revenue related. Therefore, the revenue for each fiscal year was recorded as revenue of the subsequent year; e.g. money received for races held in May and June 1986 was received in July 1986 and was recognized as fiscal year 1986-87 revenue rather than fiscal year 1985-86 revenue. These errors caused understatements of revenue in the special revenue fund of $30,027 in fiscal year 1985-86 and $32,181 in fiscal year 1986-87. Subsequent year's revenues would be overstated by the same amounts. The department should strengthen its internal controls by requesting the various divisions to explain to which fiscal year revenues belong on documents processed during the last weeks of one fiscal year and the first few weeks of the next fiscal year.

Video Gaming revenues of $32,200 for fiscal year 1986-87 were recognized in fiscal year 1987-88. The Video Gaming Bureau is new to the department. The Management Services Division informed the personnel there that cash received as of June 30, 1987, was to be to the division by the end of the working day, but if the deposit couldn't be made, they were to let the division

know so an adjustment could be made. The Video Gaming personnel did not submit a deposit and did not contact the division with any adjustments. However, there was enough information on the supporting documentation to determine the appropriate coding. Department procedures include a review of support to ensure personnel properly code documents.

We noted four instances of errors involving payroll processing. Two instances related to overtime and compensatory time. In the first instance, payroll personnel charged nine hours of overtime to an inappropriate account in fiscal year 1985-86. The two accounts involved were the Boards of Dentists and Architects, both of which are accounted for in the special revenue fund. The Board of Dentists should have recognized the expenditure rather than the Board of Architects. The second error involved a Section 8 Housing (CFDA #14.156) employee who should have been credited with 1.5 hours of compensatory time but was actually credited with 2 hours. Payroll personnel indicated these errors were due to oversight. The last two instances concerned supporting documentation which indicated the expenditures should have been charged to an account other than the one actually charged. Although these errors did not result in material misstatements, payroll personnel should take care to ensure the appropriate accounts are charged for the appropriate amounts as indicated by the supporting documentation. The individual responsible for reviewing and approving payroll documents should review for these types of errors.

The last errors to be dealt with in this section concern timely deposits of cash receipts. This issue was addressed in the prior audit report and the department has since made substantial improvements in this area. State law requires cash receipts to be deposited in a timely manner. Section 17-6-105, MCA, and MOM section 2-1210.22 and department policy specifically require at least weekly deposits. The law also requires deposits to be made daily when coin and currency exceed $100 and to be made whenever total cash collections exceed $500. We could not determine whether three boards were in compliance with the statute and policies. Administrative assistants for the Boards of Radiologic Technicians, Professional Engineers, and Electrical Safety appear to be logging a week's worth of receipts on the day the deposit is made as the log books consistently show entries for only the day a deposit is made. The administrative assistants have no procedures for identifying when collections

meet the deposit criteria. The assistants indicated they always deposit daily during busy registration periods but during the slower periods daily receipts are logged in less often. All assistants indicated they were aware of the deposit criteria.

While completing audit work related to the lottery, we determined the lottery personnel were not restrictively endorsing and depositing lottery application fees as required by the statute and policy referred to above. The lottery application fee is described as a nonrefundable fee; however, lottery personnel did not endorse or deposit the checks received from potential retailers until they determined the application was complete. Since the application fee is nonrefundable as stated in the information packet distributed to potential retailers, the checks should be endorsed immediately upon receipt and deposited in accordance with state law. Then the application forms can be reviewed for completeness. A form letter could be developed by the lottery, used to identify the incomplete information, and to request the applicant to complete the application. These procedures provide safeguards over cash receipts while still ensuring the applications are reviewed and complete, and thus improve internal controls.

The preceding paragraphs describe areas where the department can improve its compliance with internal controls already in place and where the department can strengthen internal control. The varied activities administered by the department require strict adherence to department policies and procedures to ensure accurate financial information is recorded on the accounting records and assets are adequately safeguarded.

RECOMMENDATION #10

WE RECOMMEND THE DEPARTMENT:

A. COMPLY WITH ESTABLISHED INTERNAL CONTROL PROCEDURES TO ENSURE ACCURATE PROCESSING OF FINANCIAL DATA AND ADEQUATE SAFEGUARDING OF ASSETS.

B. IMPLEMENT ADDITIONAL INTERNAL CONTROLS OVER CASH RECEIPTS TO ENSURE REVENUE IS RECORDED IN THE PROPER FISCAL YEAR.

ACCOUNTING ISSUES

During the course of our audit work, we identified several accounting issues, some of which resulted in material misstatements in the accounting records and, subsequently, a qualified opinion on the financial schedules presented on pages 32 through 46. The following subsections discuss each of the issues.

Montana Economic Development Board (MEDB)

The fiscal year 1985-86 audit of MEDB revealed several misstatements and misclassifications of activity. The 1985-86 MEDB financial statements were adjusted for these errors and the department corrected the financial records during fiscal year 1986-87 for these errors. The misstatements were due primarily to fiscal year 1985-86 being the first year the MEDB activity was accounted for in an enterprise fund. The following table identifies the misstatements by major category. The misstatements in the general and nonexpendable trust funds relate to misclassifications and do not have an effect on the respective fund balances.

Fund Type	Account Type	Amount Over(under)stated
Enterprise	Assets	$ (115,306)
	Liabilities	46,132
	Revenues	(128,031)
	Expenses	12,935
	Fund Balance,7-1-85	(20,472)
General	Revenues	1,990,060
	Transfers In	(1,990,060)
Nonexpendable Trust	Transfers Out	(1,990,060)
	Revenues	1,990,060

The accounting records in fiscal year 1986-87 for the MEDB do not include all activity from the May 1987 trustee statements. Investments and revenues on the accounting records were understated by $124,102 as a result. MEDB personnel detected this error when they were preparing the financial statements for fiscal year 1986-87.

Education Trust Fund

During fiscal year 1985-86 the department distributed $11,495,524 of investment earnings from the Education Trust and Local Impact funds to the Office of Public Instruction (OPI) and to the Board of Regents (BOR). The department records these distributions as transfers out on the accounting records. The amount of money distributed was the cash received from the Board of Investments through the month of June 1986. Transactions processed during the year-end cut-off period were not included in the distributions. Section 90-6-211, MCA, which sets forth the allocation percentages, requires the department to transfer or distribute "investment income."

Investment income includes losses on sales of securities as well as gains and losses from bond swaps. The department did not distribute these items to the designated agencies. In addition, the transfers out during fiscal year 1985-86 to OPI and BOR included cash received from the fiscal year 1984-85 investment earnings accrual. The total amount of transfers out for fiscal year 1985-86 was overstated by $1,377,769. The department processed transactions during fiscal year 1986-87 to correct for the errors made in the previous year. We noted no problems related to the fiscal year 1986-87 distributions.

Board of Housing

We recommended in the prior audit report that the department ensure all financial activity related to the department be recorded on the department's accounting records. This recommendation was directed specifically to the fact the Board of Housing (BOH) financial information was not completely recorded on the department's accounting records. The department concurred with our recommendation and established the necessary accounts on its financial records.

The information recorded on the accounting records for the BOH, however, does not include all of the activity for either fiscal year 1985-86 or 1986-87. The recorded financial information represents actual activity only through May of each fiscal year. BOH personnel stated they could not obtain June financial information from its various sources in time to allow Management Services Division personnel to record complete fiscal year activity on the department's accounting records. Personnel further stated they do not

prepare accounting entries for the department records until the financial statements for the various bond issues have been finalized. The BOH should be able to prepare accounting entries earlier and thus meet the department's cut-off date for recording transactions on its accounting records. The department should work with the BOH to determine the most feasible method for obtaining this information.

During our field work we suggested BOH personnel attempt to estimate the activity for June. BOH did make this attempt for fiscal year 1986-87. We determined the fiscal years 1985-86 and 1986-87 misstatements in the enterprise funds as indicated below. The substantial difference in the misstatements from fiscal year 1985-86 to fiscal year 1986-87 is a reflection of the BOH's estimation procedures.

	Over (under) Statements	
Account Type	Fiscal Year 1985-86	Fiscal Year 1986-87
Assets	$36,064,131	$(2,476,728)
Liabilities	$31,406,705	$(2,873,286)
Revenues and Transfers In	$(3,513,295)	$(3,976,150)
Expenses and Transfers Out	$(3,493,671)	$(5,791,898)
July 1 Fund Balance & Direct Entries to Fund Balance	$ 1,475,039	$(1,475,039)
Prior Year Adjustments	$ 28,661	$ (55,849)

Central Montana Rail (CMR)

CMR is the organization responsible for the rehabilitation of the Geraldine branch line. The department reimburses CMR for 70 percent of its rehabilitation expenditures relating to the line from a special revenue fund. The other 30 percent of the rehabilitation expenditures and 100 percent of CMR's operating expenditures relating to the line are financed from an expendable trust fund. The financing arrangements were agreed to via a settlement agreement between the department and Burlington Northern Railroad.

During the audit period, the department advanced moneys to CMR for future operating and rehabilitation expenditures from the expendable trust funds. The department records these transactions as expenditures. When CMR actually incurs the expenditures, it notifies the department. At that time, the

department processes accounting documents to record the expenditures in the appropriate accounts. This method resulted in misstatements of assets, liabilities, expenditures, fund balance, and prior year adjustments for both fiscal years 1985-86 and 1986-87.

The primary reason for the misstatements is the department did not analyze the status of outstanding advances at June 30 in conjunction with CMR's expenditure reports submitted during the fiscal year. At June 30, 1986, expenditures in the expendable trust fund were understated by $115,976; advances were understated by $83,872; and beginning fund balance was understated by $199,848. At June 30, 1987, prior year expenditures were understated by $461,719; current year expenditures were overstated by $96,785; accrued expenditures were understated by $135,702; advances were overstated by $145,360; and beginning fund balance was understated by $83,872.

We have discussed this situation with the department personnel responsible for monitoring the CMR activity and with personnel responsible for recording the accounting transactions. Both parties indicated that they could monitor the expenditures and advances in order to provide for accurate accounting in the future.

Equipment Capitalization

The asset associated with an equipment purchase in an enterprise fund is recorded in that fund. State laws complicate the accounting entries for an enterprise fund in that spending in this fund type is controlled by the appropriations laws, and the accounting records must be maintained in accordance with generally accepted accounting principles. In order to demonstrate compliance with state law, state agencies use two separate expenditure accounts when capitalizing fixed assets in an enterprise fund.

At fiscal year-end 1985-86, the department obligated itself to purchase computer equipment (hardware and software) and therefore recognized an expenditure. The department received the equipment in fiscal year 1986-87 and capitalized the assets at that time. However, in recording the assets, the department made errors which resulted in a misclassification between current year expenditures and prior year expenditure adjustments of $51,109. In addition, the department did not consistently use the same expenditure description codes between the initial obligation and the final capitalization.

The initial obligation was coded as a "contracted service;" the final capitalization transaction was coded as "equipment." The individual responsible for coding the transaction in this manner is no longer with the department so we could not determine the reason for the initial coding.

Summary

The above subsections describe various accounting errors made by the department. The number of accounting errors found has decreased from the previous audit, indicating improvements by the department. The department should continue to work towards maintaining its accounting records in accordance with generally accepted accounting principles as required by state law.

RECOMMENDATION #11

WE RECOMMEND THE DEPARTMENT CONTINUE TO WORK TOWARDS MAINTAINING ITS ACCOUNTING RECORDS IN ACCORDANCE WITH STATE LAW.

LOTTERY REVENUE AND EXPENSE RECOGNITION

The Montana Lottery designs each lottery game individually. The odds of winning a particular prize are, therefore, not the same from game to game. Actual sales and prize payouts will also vary depending on the level of play.

We reviewed the lottery's financial activity for fiscal year 1986-87. The results of our review identified concerns related to revenue and expense recognition and to compliance with statutory provisions for the lottery. This report section discusses our concerns using the first lottery game for illustration.

Books of lottery tickets for the first game contained 500 tickets. Retailers purchased these books for $335. This price was determined based on the average number of low tier prizes and free tickets per book as each book of lottery tickets contains a different number of winners. Lottery personnel calculated the purchase price as follows:

Value of tickets ($1/ticket)	$500
Less: Low tier prizes*	<90>
Free tickets	<50>
Commission**	<25>
Amount paid by retailer	$335

*$2 and $5 winners which the retailers pay from money received through ticket sales to the consumer.

**5% of the face value of tickets sold to the retailers.

The Montana State Lottery recognizes revenues at the point of sale to the retailers. The amount of revenue recorded is $.90 per ticket instead of $1 per ticket because lottery personnel do not believe there is revenue and expense related to a free ticket. Lottery personnel stated the free ticket is not a monetary prize and is only a second chance to win a monetary prize. Section 23-5-1017(3), MCA, states, "Tickets and chances must be paid for in cash." A literal interpretation of this statute suggests the lottery cannot legally give away lottery tickets as a second chance to win a prize. If the free ticket is designated as a prize the question does not arise. Lottery personnel stated the reason for this statute is to prohibit the purchase of lottery tickets on credit. We believe this law should be clarified to reflect the actual intent.

As of June 30, 1987, the lottery had distributed 5,264,580 lottery tickets to retailers, 526,458 of which were free tickets. Recorded revenue for ticket sales to retailers as of June 30, 1987 was $4,738,122. The accounting profession has not taken any position, through official pronouncements, on whether or not lotteries should recognize free ticket revenues and expenses. We contacted 22 other states which operate lotteries. Four of these states do not offer free tickets as prizes. Of the remaining 18, 9 states believe lotteries should recognize revenues and expenses for free tickets. Three of these states are presently replacing the free ticket with a one-dollar cash prize. Of the remaining nine states, six do not recognize any revenues or expenses for free tickets and three recognize the cost of printing the free tickets as prize expense. These results indicate the more common practice and the trend is to recognize the revenues and expenses.

Lottery personnel stated that if revenues and expenses were recognized as described above, the lottery would exceed the statutory limits on prize distribution. State law provides for:

1. As near as possible to 45 percent of the money paid for tickets or chances be paid out as prize money;

2. A maximum of 15 percent of gross revenues to be used for administrative expenses;

3. A maximum of 5 percent of tickets sold for commissions to retailers; and

4. The balance to be paid to the Superintendent of Public Instruction for distribution as equalization aid to school districts' retirement funds.

The cash prize structure for a lottery game is set to meet the 45 percent target without considering free tickets as part of the payout. If the free tickets are, in fact, prizes, the lottery may have exceeded the prize payout limit. Whether the lottery exceeded the prize limit depends on interpretation of the statute which defines gross revenues and describes the prize payout. Section 23-5-1026, MCA, defines gross revenues as moneys from the sale of lottery tickets and chances, license fees, unclaimed prizes, or any other sources. Section 23-5-1027, MCA, as discussed above states "As near as possible to 45% of the money paid for tickets or chances must be paid out as prize money..." One interpretation is that the phrase "money paid" means all revenues related to a game, including free tickets, in which case the lottery did exceed the 45 percent limit in game one. The payout under this interpretation is 50.5 percent. A second interpretation is that "money paid" means exactly that--the actual cash which changes hands at the retail level, in which case recognizing revenues and expenses related to the free tickets has no bearing on the 45 percent target.

The lottery statutes do not use terminology consistently. The prize payout is based on "money paid." The administrative allowance is based on "gross revenues" as defined in the statutes. The base for the commission to retailers is not defined. The result is the lottery is inconsistent in its inclusion and exclusion of free tickets for computation purposes. The lottery includes free tickets when computing the commission allowance but excludes them from computations of prize payouts and recognition of prize expense.

The following table illustrates the effects on revenues, expenses, and equalization aid of recognizing revenues and expenses for free tickets (column

2) versus the revenues and expenses recognized by the lottery (column 1). The figures used are those from game one as of June 30, 1987. As illustrated, the only differences are in revenues and prize expense which are offset dollar for dollar.

	Column 1 Revenue @ $.90/ticket	Column 2 Revenue @ $1/ticket	Column 3 Difference
Revenues	$4,738,122	$5,264,580	$526,458
Commission Expense[1]	263,229	263,229	-0-
Prize Expense	2,132,154[4]	2,658,612[5]	526,458
Administration Allowance[2]	710,718	710,718	-0-
Equalization Aid[3]	1,632,021	1,632,021	-0-

[1] The lottery currently pays commissions totalling 5% of face value of tickets distributed to retailers.

[2] 15% of gross revenues from ticket sales as defined in section 23-5-1026, MCA.

[3] Revenues less expense items.

[4] 45% of gross revenues from ticket sales as defined in section 23-5-1026, MCA.

[5] 45% of gross revenues from ticket sales per section 23-5-1026, MCA, plus free tickets valued at $1 per ticket. Since the accounting profession has not issued any authoritative literature the prize expense for free tickets could range from nothing to the cost of printing and distributing the tickets to the face value of the ticket as discussed on page 26.

The table above presents commission expense in both cases as 5 percent of the face value of tickets sold. The lottery statutes do not clearly identify the base to which the commission allowance should be applied. If it is the face value of the ticket the lottery is in compliance with section 23-5-1016(10), MCA. If the allowance is to be based on the cash revenues (i.e., the $.90/ticket) the lottery exceeded the statutory limit. Under this interpretation the maximum commission expense would have been $236.906 which in turn would have resulted in $1,658,344 being available for the equalization aid distribution.

The statutes identified in this section as having contributed to the inconsistencies in the lottery's operation include the following:

1. Section 23-5-1016(10), MCA: "Sales agents are entitled to no more than a 5% commission on tickets and chances sold." The question here is whether or not the sales agents/retailers are entitled to a commission on free tickets.

2. Section 23-5-1017(3), MCA: "Tickets and chances must be paid for in cash." The question with regard to this statute is whether the lottery can give away a ticket or chance (see page 26) or whether a free ticket is a prize. If it is a prize the lottery should recognize prize expense.

3. Section 23-5-1026, MCA: ". . . The gross revenue from the state lottery, consisting of money from the sale of lottery tickets and chances, ticket or chance sales agent license fees, unclaimed prizes, or any other source, must be deposited in the fund . . ." The term "gross revenue" has caused some interpretation problems as it may not be the same as "revenue" according to generally accepted accounting principles.

4. Section 23-5-1027(1)(a), MCA: "As near as possible to 45% of the money paid for tickets or chances must be paid out as prize money . . ." The question raised here is whether or not non-monetary prizes such as free tickets must be included in the target percentage.

In summary, the above paragraphs discuss topics which should be clarified in the statutes and, potentially, the accounting records. We believe the lottery should recognize prize expenses for free tickets in order to provide complete information in the accounting records.

<u>RECOMMENDATION #12</u>

WE RECOMMEND THE DEPARTMENT:

A. SEEK LEGISLATION TO CLARIFY THE LOTTERY STATUTES.

B. RECOGNIZE PRIZE EXPENSE RELATED TO THE FREE TICKET PRIZES.

AUDITOR'S OPINION LETTER

AND AGENCY FINANCIAL SCHEDULES

SUMMARY OF AUDIT OPINION

The financial schedules on pages 33 through 47 were prepared from the Statewide Budgeting and Accounting System (SBAS) with no adjustments. The auditor's opinion issued in this report is intended to convey to the reader of the financial schedules the degree of reliance which can be placed on the amounts presented. The opinion we issued on the schedules listed in paragraph seven of the auditor's opinion on page 32, means the reader may rely on the fairness of the amounts presented in these schedules and, therefore, the amounts recorded on SBAS except for those specific items discussed in paragraphs three through five. We also direct the reader's attention to Note 6c to the financial schedules which describes an issue of noncompliance.

The opinion we issued on the Schedule of Additions and Deductions to Agency Fund Assets means the reader may rely on the fairness of the amounts presented on this schedule and, therefore, the amounts recorded on SBAS for this fund when analyzing the department's operations.

STATE OF MONTANA

Office of the Legislative Auditor

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JIM PELLEGRINI
Performance Audit

The Legislative Audit Committee
of the Montana State Legislature:

We have examined the financial schedules of the Department of Commerce for each of the fiscal years ending June 30, 1986 and 1987 as shown on pages 33 through 47. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the detailed transactions supporting the summary transactions recorded on the accounting records for the Board of Housing. The activity recorded on the accounting records for the Board of Housing during fiscal year 1985-86 accounted for 99 percent of the revenues and 96 percent of the expenditures recorded in the Enterprise Fund. The Board of Housing accounted for 87 percent of both revenues and expenditures in the Enterprise Fund for fiscal year 1986-87. The Board of Housing's financial statements for each of the two fiscal years ended June 30, 1986 and June 30, 1987 were examined by other auditors whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for the Board of Housing, is based solely upon the reports of the other auditors.

As described in Note 1 to the financial schedules, the department's financial schedules are prepared in accordance with state accounting policy. Accordingly, the accompanying financial schedules are not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

The department did not record all of the Board of Housing activity for both fiscal years under audit. Enterprise Fund activity was misstated as follows:

Fiscal Year	Account	Amount (Under)Overstated
1985-86	Fund Balance 7-1-85	$(1,920,883)
	Direct Entries to Fund Balance	6,626,594
	Budgeted Revenues & Transfers In	812,574
	Nonbudgeted Revenues & Transfers In	(4,325,869)
	Budgeted Expenditures & Transfers Out	1,100,321
	Nonbudgeted Expenditures & Transfers Out	(4,593,992)
1986-87	Fund Balance 7-1-86	4,657,428
	Direct Entries to Fund Balance	(6,132,467)
	Budgeted Revenues & Transfers In	1,549,532
	Nonbudgeted Revenues & Transfers In	(5,525,682)
	Budgeted Expenditures & Transfers Out	(256,802)
	Nonbudgeted Expenditures & Transfers Out	(5,535,096)

The department improperly recorded some transactions related to the Montana Economic Development Board. These errors affected the Enterprise, Nonexpendable Trust, and General funds.

Fiscal Year	Fund	Account	Amount (Under)Overstated
1985-86	General	Budgeted Revenues	$ 1,990,060
		Budgeted Transfers In	(1,990,060)
	Nonexpendable Trust	Budgeted Transfers Out	(1,990,060)
		Budgeted Revenues	(1,990,060)
	Enterprise	Nonbudgeted Revenues	(128,031)
1986-87	Enterprise	Prior Year Revenue Adjustment	(128,031)
		Fund Balance, 7-1-86	(150,519)
		Direct Entries to Fund Balance	22,488

The department improperly accounted for expenditure activity related to the Central Montana Railroad which is partially accounted for in the Expendable Trust Fund. As a result, in fiscal year 1986-87, prior year expenditures were understated by $461,719, budgeted expenditures were overstated by $96,785, and fund balance at July 1, 1986 was understated by $83,872.

During fiscal year 1986-87, the department moved cash in the amount of $632,540 from the Nonexpendable Trust Fund to the Expendable Trust Fund at the direction of the Governor's Office of Budget and Program Planning. The move should not have been made as there was no legal authority to do so. This issue is discussed further in Note 6c to the financial schedules.

In our opinion, based on our examination and the report of other auditors, except for the effects of the matters discussed in paragraphs three through five, the Schedule of Changes in Fund Balances, the Schedules of Revenue and Transfers In - Estimated and Actual for fiscal years 1985-86 and 1986-87, and the Schedules of Budgeted Program Expenditures by Object and Fund for fiscal years 1985-86 and 1986-87 present fairly the results of operations and the changes in fund balances of the Department of Commerce for the fiscal years ending June 30, 1986 and 1987, in conformity with the basis of accounting described in Note 1, applied on a consistent basis.

In our opinion, the Schedule of Additions and Deductions to Agency Fund Property Held in Trust presents fairly the results of operations of the Department of Commerce for the two fiscal years ended June 30, 1987, in conformity with the basis of accounting described in Note 1, applied on a consistent basis.

Respectfully submitted,

James Gillett

James Gillett, CPA
Deputy Legislative Auditor

November 20, 1987

DEPARTMENT OF COMMERCE
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1987

	General Fund	Special Revenue Funds	Debt Service Funds	Enterprise Funds	Internal Service Funds	Expendable Trust Funds	Nonexpendable Trust Funds
FUND BALANCE: July 1, 1985	$ -0-	$13,701,836	$ -0-	$ (661,638)	$ 165,598	$2,956,308	$ 95,089,195
ADDITIONS							
Fiscal Year 1985-86							
Budgeted Revenue & Transfers In	2,483,513	21,196,647		1,410,926	2,073,720	526,221	10,002,715
Nonbudgeted Revenue & Transfers In	1,382	7,673		60,250,375			10,346,347
Direct Entries to Fund Balance	680,000			39,716,905			
Prior Year Revenue Adjustments	144,426	40,521		177,045	(1,983)	662	2,092,569
Support from State of Montana	6,029,703						
Cash Transfers In		15,223,127	10,404,498				8,711,662
Prior Year Revenue		21,517				109,445	
Prior Year Transfers In Adjustments		(229,033)					229,033
Fiscal Year 1986-87							
Budgeted Revenue & Transfers In	3,008,614	22,526,777		6,747,097	1,982,486	387,572	14,721,783
Nonbudgeted Revenue & Transfers In	403,757	23,714		57,494,994			9,318,096
Prior Year Revenue Adjustments	5,721			132,076			40,014
Prior Year Expenditure Adjustments	134,945	30,092			803		
Direct Entries to Fund Balance	500,000				156,247	632,540	
Support from State of Montana	12,050,833						
Cash Transfers In		9,215,287	9,367,626				943,394
Prior Year Transfers In Adjustments		(12,447)		1,121			12,447
Total Additions	25,442,894	68,043,875	19,772,124	165,930,539	4,211,273	1,656,440	56,418,060
REDUCTIONS							
Fiscal Year 1985-86							
Budgeted Expenditures & Transfers Out	9,350,978	44,096,373		1,607,675	1,987,154	1,256,228	
Prior Year Expenditure Adjustments	(11,955)	4,232		1,642	517		
Direct Entries to Fund Balance		373,069					122,058
Prior Year Expenditures							
Nonbudgeted Prior Year Expenditure Adjustments		(87,100)		(641,519)	138,408		
Nonbudgeted Expenditures & Transfers Out			9,675,248	54,936,375	(15,080)		11,532,726
Nonbudgeted Prior Year Transfer Out Adjustments							97,036
Fiscal Year 1986-87							
Budgeted Expenditures & Transfers Out	16,102,783	30,633,666		6,213,655	1,889,142	294,665	
Prior Year Expenditures	(34)	852				(461,719)	
Prior Year Transfers Out Adjustments	1,122						
Prior Year Revenue Adjustments		78,217					
Direct Entries to Fund Balance		510,190		6,108,989	.6,024		35,818,217
Nonbudgeted Expenditures & Transfers Out			9,318,096	51,825,260	(65,928)		14,331,483
Prior Year Expenditure Adjustments				31,833			
Nonbudgeted Prior Year Expenditure Adjustment				(69,065)	13,850		829,069
Total Reductions	25,442,894	75,609,499	18,993,344	120,014,845	3,954,087	1,089,174	62,730,589
FUND BALANCE: June 30, 1987	$ -0-	$ 6,136,212	$ 778,780	$ 45,254,056	$ 422,784	$3,523,574	$ 88,776,666

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 39 through 47.

DEPARTMENT OF COMMERCE

SCHEDULE OF BUDGETED REVENUE & TRANSFERS IN - ESTIMATED & ACTUAL

FOR THE FISCAL YEAR ENDED JUNE 30, 1987

	Licenses and Permits	Charges For Services	Investment Earnings	Federal Indirect Cost Recoveries	Sale of Documents & Merchandise	Taxes	Fines & Forfeits	Rentals, Leases & Royalties	Miscellaneous	Grants, Contracts, Donations	Federal	Income Collections & Transfers	Total
GENERAL FUND													
Estimated Revenue	$ 502,900	$ 10,000	$ 2,128,685	$ 8,000	$ 1,200								$ 2,650,785
Actual Revenue	596,821	8,367	2,387,163	14,940	1,323								3,008,614
Collections Over (Under) Estimate	$ 93,921	$ (1,633)	$ 258,478	$ 6,940	$ 123								$ 357,829
SPECIAL REVENUE FUND													
Estimated Revenue	$1,656,350	$2,295,480	$ 199,136		$ 25,300	$282,684	$500	$ 3,138	$30,000	$650,000	$ 30,700,129		$ 35,842,717
Actual Revenue	4,265,425	2,081,651	221,766		27,532	275,820	500	1,938	22,715	574,475	15,054,955		22,526,777
Collections Over (Under) Estimate	$2,609,075[1]	$ (213,829)	$ 22,630		$ 2,232	$ (6,864)	$-0-	$ (1,200)	$(7,285)	$(75,525)	$(15,645,174)[2]		$(13,315,940)
ENTERPRISE FUNDS													
Estimated Revenue	$ 40,000	$1,519,484			$4,500,000			$ 40,000	$21,700			$195,141	$ 6,316,325
Actual Revenue	54,900	1,745,206			4,738,120			10,084	22,370			176,417	6,747,097
Collections Over (Under) Estimate	$ 14,900	$ 225,722			$ 238,120			$(29,916)	$ 670			$(18,724)	$ 430,772
INTERNAL SERVICE FUNDS													
Estimated Revenue		$1,449,881		$600,000	$ 3,500							$166,119	$ 2,219,500
Actual Revenue		1,152,644		662,974	1,636							165,232	1,982,486
Collections Over (Under) Estimate		$ (297,237)		$ 62,974	$ (1,864)							$ (887)	$ (237,014)
EXPENDABLE TRUST FUNDS													
Estimated Revenue			$ 335,860										$ 335,860
Actual Revenue			387,572										387,572
Collections Over (Under) Estimate			$ 51,712										$ 51,712
NONEXPENDABLE TRUST FUNDS													
Estimated Revenue		$ 70,000	$10,681,000										$ 10,751,000
Actual Revenue		68,909	14,652,874										14,721,783
Collections Over (Under) Estimate		$ (1,091)	$ 3,971,874										$ 3,970,783

1 Variance is primarily attributable to a continuing revenue estimate carried forward from fiscal year 1985-86 with a balance of $550. Actual collections against this estimate during fiscal year 1986-87 were $2,272,366.

2 Variance is due to the continuing revenue estimates which were established to cover three fiscal years.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 39 through 47.

DEPARTMENT OF COMMERCE

SCHEDULE OF BUDGETED REVENUE & TRANSFERS IN - ESTIMATED & ACTUAL

FOR THE FISCAL YEAR ENDED JUNE 30, 1986

	Licenses and Permits	Charges for Services	Investment Earnings	Federal Indirect Cost Recoveries	Sale of Documents & Merchandise	Taxes	Rentals, Leases & Royalties	Miscellaneous	Grants, Contacts, Donations	Federal	Income Collections & Transfers	Total
GENERAL FUND												
Estimated Revenue	$ 498,500	$ 13,000	$ 1,772,344	$ 6,000	$ 1,000							$ 2,290,844
Actual Revenue	478,596	11,289	1,991,374	1,209	1,045							2,483,513
Collections Over (Under) Estimate	$ (19,904)	$ (1,711)	$ 219,030	$ (4,791)	$ 45							$ 192,669
SPECIAL REVENUE FUND												
Estimated Revenue	$3,952,344	$2,137,156	$ 358,861		$31,000	$300,000	$ 1,500	$ 80,000	$ 380,000	$22,788,225	$ 100,000	$30,129,086
Actual Revenue	3,907,823	2,043,014	355,525		23,495	297,971	2,383	28,302	242,642	14,295,492	0	21,196,647
Collections Over (Under) Estimate	$ (44,521)	$ (94,142)	$ (3,336)		$(7,505)	$ (2,029)	$ 883	$(51,698)	$(137,358)	$(8,492,733)[1]	$(100,000)	$(8,932,439)
ENTERPRISE FUNDS												
Estimated Revenue		$1,324,900	$ 7,700				$100,000	$ 35,000			$ 201,583	$ 1,669,183
Actual Revenue		1,116,744	0				59,878	35,000			199,304	1,410,926
Collections Over (Under) Estimate		$ (208,156)	$ (7,700)				$(40,122)	$ 0			$ (2,279)	$ (258,257)
INTERNAL SERVICE FUNDS												
Estimated Revenue		$1,293,150		$600,000	$ 3,500						$ 174,975	$ 2,071,625
Actual Revenue		1,249,787		647,526	1,432						174,975	2,073,720
Collections Over (Under) Estimate		$ (43,363)		$ 47,526	$(2,068)						$ 0	$ 2,095
EXPENDABLE TRUST FUNDS												
Estimated Revenue			$ 455,580									$ 455,580
Actual Revenue			526,221									526,221
Collections Over (Under) Estimate			$ 70,641									$ 70,641
NONEXPENDABLE TRUST FUNDS												
Estimated Revenue		$ 33,000	$12,316,604									$12,349,604
Actual Revenue		32,803	9,969,912									10,002,715
Collections Over (Under) Estimate		$ (197)	$(2,346,692)									$(2,346,889)

[1] Variance is attributable to continuing revenue estimates.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 39 through 47.

DEPARTMENT OF COMMERCE
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES BY OBJECT AND FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 1987

	Business Licensing/ Regulation	Weight & Measures Bureau	Financial Division	Milk Control Bureau	POL Bureau	Division of Aeronautics	Transportation Division	Business Assistance	Montana Promotion	Housing Assistance	Community Assistance	Economic Policy & Research
PERSONAL SERVICES												
Salaries	$44,154	$231,183	$441,562	$137,779	$ 650,638	$253,908	$ 411,092	$284,602	$ 240,208	$ 157,836	$ 315,751	$179,294
Other Compensation			450	2,500	58,450	3,300					7,300	1,175
Employee Benefits	7,641	52,991	91,150	29,332	120,509	56,624	79,891	54,734	49,205	31,962	63,179	36,486
Total	51,795	284,174	533,162	169,611	829,597	313,832	490,983	339,336	289,413	189,798	386,230	216,955
OPERATING EXPENSES												
Contracted Services	938	10,018	14,429	6,701	223,979	193,940	135,613	248,637	380,614	36,664	45,640	12,042
Supplies & Materials	152	15,182	1,569	1,050	18,541	34,080	2,975	4,806	3,373	2,645	5,923	4,766
Communications	1,022	6,579	10,284	7,264	75,423	20,531	13,087	64,048	686,936	14,690	16,671	7,742
Travel	351	29,460	110,643	21,144	137,320	22,693	52,357	32,084	48,792	5,402	26,937	12,750
Rent	1,259	8,722	7,207	9,139	39,150	16,176	14,402	12,403	16,371	10,550	14,176	10,759
Utilities		980				12,578				1,572		
Repair & Maintenance	96	13,116	2,056	1,064	20,975	23,847	2,879	4,604	2,798	12,825	7,381	2,237
Other Expenses	5,094	28,221	57,654	17,733	175,190	41,950	61,277	43,675	51,576	36,395	107,416	25,576
Goods Purchased For Resale						10,904		2,103				
Total	8,912	112,278	203,842	64,095	690,578	376,699	282,590	412,360	1,190,460	120,743	224,144	75,872
EQUIPMENT AND INTANGIBLE ASSETS												
Equipment	3,785	1,278	2,579	5,685	29,462	2,227	833	33,751	3,148	1,363	4,167	2,982
Intangible Assets												
Total	3,785	1,278	2,579	5,685	29,462	2,227	833	33,751	3,148	1,363	4,167	2,982
CAPITAL OUTLAY												
Buildings						50,709						
Total						50,709						
LOCAL ASSISTANCE												
From State Sources												
Total												
GRANTS												
From State Sources						7,393	69,825				2,397,692	
From Federal Sources							603,860	5,000		8,276,508	5,239,076	
From Other Sources							344,665					
Total						7,393	1,018,350	5,000		8,276,508	7,636,768	
TRANSFERS												
Accounting Entity Transfers						2,805						
Total						2,805						
DEBT SERVICE												
Installment Purchases												
Total												
TOTAL PROGRAM EXPENDITURES	$64,492	$397,730	$739,583	$239,391	$1,549,637	$753,665	$1,792,756	$790,447	$1,483,021	$8,588,412	$ 8,251,309	$295,809
GENERAL FUND												
Budgeted	$ 4,974	$410,930					$ 493,994	$674,173	$1,162,906		$ 189,979	$260,296
Actual	4,974	397,730					485,928	613,108	1,094,745		188,733	254,979
Unspent Budget Authority	$ 0	$ 13,200					$ 8,066	$ 61,065	$ 68,161		$ 1,246	$ 5,317
SPECIAL REVENUE FUND												
Budgeted	$69,597		$740,072	$259,035	$1,993,448	$726,178	$2,556,390	$300,000	$ 550,000	$8,699,452	$20,748,725	$ 40,830
Actual	59,518		739,583	239,391	1,549,637	718,189	1,012,163	177,339	388,276	8,588,412	8,062,576	40,830
Unspent Budget Authority	$10,079		$ 489	$ 19,644	$ 443,811	$ 7,989	$1,544,227	$122,661	$ 161,724	$ 111,040	$12,686,149	$ 0
ENTERPRISE FUNDS												
Budgeted						$ 87,599						
Actual						35,476						
Unspent Budget Authority						$ 52,123						
EXPENDABLE TRUST FUNDS												
Budgeted							$2,205,491					
Actual							294,665					
Unspent Budget Authority							$1,910,826					
INTERNAL SERVICE FUNDS												
Budgeted												
Actual												
Unspent Budget Authority												

	Local Government Audit Service	Accounting/ Management Service	Local Govt Assistance Admin.	Building Codes Division	Indian Affairs Coordinator	Health Facilities Authority	Economic Development Board	Mt Science & Tech Alliance	Board of Housing	Lottery Division	Director/ Management Services	Total
PERSONAL SERVICES												
Salaries	$530,273	$ 123,302	$ 74,121	$ 620,837	$ 46,643	$ 47,464	$177,969	$ 68,560	$ 296,081	$ 160,619	$554,873	$ 6,048,749
Other Compensation				6,650		2,200	3,400	3,300	7,300	2,575		98,600
Employee Benefits	106,076	24,377	13,486	140,902	9,188	10,290	34,313	12,458	59,791	28,571	105,581	1,218,737
Total	636,349	147,679	87,607	768,389	55,831	59,954	215,682	84,318	363,172	191,765	660,454	7,366,086
OPERATING EXPENSES												
Contracted Services	9,656	71,240	30	20,661	6,808	5,417	21,083	13,389	649,343	725,033	82,014	2,913,889
Supplies & Materials	6,587	1,940	120	23,349	690	2,145	3,003	1,886	8,510	35,013	6,043	184,348
Communications	16,827	5,505	2,250	25,247	6,436	5,180	12,567	8,633	28,960	231,445	17,770	1,285,097
Travel	81,681	14,418	600	51,902	7,801	8,143	9,241	20,687	24,722	27,812	9,481	756,421
Rent	20,234	7,074		14,978	5,608	4,762	11,923	4,389	29,383	29,632	20,420	308,717
Utilities	2,434	1,065								2,206		20,835
Repair & Maintenance	5,660	1,570	77	11,346	1,391	2,251	1,624	1,456	20,459	21,629	5,478	166,819
Other Expenses	84,111	29,518	8,593	121,038	6,318	7,698	23,853	11,108	45,856	2,167,506[1]	20,893	3,178,249
Goods Purchased For Resale				5,039						482,170		500,216
Total	227,190	132,330	11,670	273,560	35,052	35,596	83,294	61,548	807,233	3,722,446	162,099	9,314,591
EQUIPMENT AND INTANGIBLE ASSETS												
Equipment		792		6,500	1,594	388	2,707	3,761	1,099	726,003	26,403	860,507
Intangible Assets										23,624		23,624
Total		792		6,500	1,594	388	2,707	3,761	1,099	749,627	26,403	884,131
CAPITAL OUTLAY												
Buildings												50,709
Total												50,709
LOCAL ASSISTANCE												
From State Sources										84,077[2]		84,077
Total										84,077		84,077
GRANTS												
From State Sources		18,780,464[3]						1,366,340				22,621,714
From Federal Sources												14,124,444
From Other Sources												344,665
Total		18,780,464						1,366,340				37,090,823
TRANSFERS												
Accounting Entity Transfers	82,924	82,308					173,611					341,648
Total	82,924	82,308					173,611					341,648
DEBT SERVICE												
Installment Purchases									1,846			1,846
Total									1,846			1,846
TOTAL PROGRAM EXPENDITURES	$946,463	$19,143,573	$ 99,277	$1,048,449	$ 92,477	$ 95,938	$475,294	$1,515,967	$1,173,350	$4,747,915	$848,956	$55,133,911
GENERAL FUND												
Budgeted	$ 84,789	$12,597,427			$100,790		$176,538				$123,346	$16,280,142
Actual	82,924	12,595,574			92,477		173,611				118,000	16,102,783
Unspent Budget Authority	$ 1,865	$ 1,853			$ 8,313		$ 2,927				$ 5,346	$ 177,359
SPECIAL REVENUE FUND												
Budgeted		$15,225,060		$1,101,284				$1,657,148		$ 223,000	$ 10,000	$54,900,219
Actual		6,352,629		1,048,449				1,515,967		140,707		30,633,666
Unspent Budget Authority		$ 8,872,431		$ 52,835				$ 141,181		$ 82,293	$ 10,000	$24,266,553
ENTERPRISE FUNDS												
Budgeted						$119,219	$360,218		$1,173,468	$4,615,696		$ 6,356,200
Actual						95,938	301,683		1,173,350	4,607,208		6,213,655
Unspent Budget Authority						$ 23,281	$ 58,535		$ 118	$ 8,488		$ 142,545
EXPENDABLE TRUST FUNDS												
Budgeted												$ 2,205,491
Actual												294,665
Unspent Budget Authority												$ 1,910,826
INTERNAL SERVICE FUNDS												
Budgeted	$929,414	$ 274,284	$101,964								$758,022	$ 2,063,684
Actual	863,539	195,370	99,277								730,956	1,889,142
Unspent Budget Authority	$ 65,875	$ 78,914	$ 2,687								$ 27,066	$ 174,542

1 Consists primarily of lottery prizes, both high and low tier.
2 Relates to video poker - As of July 1, 1987, video poker expenditures are accounted for in a separate program.
3 Consists of Local Government Block Grants and District Court Funding.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 39 through 47.

DEPARTMENT OF COMMERCE
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES BY OBJECT AND FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 1986

	Business Licensing/ Regulation	Weight & Measures Bureau	Financial Division	Milk Control Bureau	POL Bureau	Division of Aeronautics	Transportation Division	Business Assistance	Montana Promotion	Housing Assistance	Community Assistance
PERSONAL SERVICES											
Salaries	$43,832	$243,395	$404,798	$148,869	$ 603,577	$261,602	$ 401,221	$294,884	$ 234,853	$ 151,493	$ 297,743
Other Compensation				2,800	59,525	5,400					9,350
Employee Benefits	8,057	52,941	80,946	31,014	113,241	55,882	76,197	55,597	47,219	30,535	37,434
Total	51,889	296,336	485,744	182,683	776,343	322,884	477,418	350,481	282,072	182,028	364,527
OPERATING EXPENSES											
Contracted Services	1,469	15,085	26,327	23,962	284,990	47,743	260,297	184,767	311,411	29,612	83,131
Supplies & Materials	204	16,150	2,724	2,807	20,568	37,736	3,650	3,204	4,156	3,140	7,904
Communications	1,487	6,788	6,823	8,658	78,311	21,731	17,334	39,141	749,024	14,740	21,850
Travel	80	30,880	103,386	26,415	149,706	20,833	53,818	42,865	45,060	5,820	38,388
Rent	1,196	8,708	6,292	8,423	40,178	14,115	12,438	12,458	16,401	9,816	14,331
Utilities		946				16,099				1,424	
Repair & Maintenance	50	14,519	490	875	10,483	18,712	5,405	773	2,151	11,093	4,454
Other Expenses	5,274	29,629	52,832	19,312	183,891	47,203	58,824	47,170	49,030	28,612	69,869
Goods Purchased For Resale						11,795					
Total	9,760	122,505	198,874	90,452	768,127	235,967	411,766	330,378	1,177,233	104,257	239,927
EQUIPMENT AND INTANGIBLE ASSETS											
Equipment	6,500	25,476	6,500	10,680	78,126	9,251	10,014	8,640	7,947	91,455	5,784
Livestock						1,600					
Total	6,500	25,476	6,500	10,680	78,126	10,851	10,014	8,640	7,947	91,455	5,784
CAPITAL OUTLAY											
Buildings						3,550					
Total						3,550					
GRANTS											
From State Sources						5,540	75,000				5,126,183
From Federal Sources							764,438			7,113,869	5,680,476
From Other Sources							4,739,408				
Total						5,540	5,578,846			7,113,869	10,806,659
TRANSFERS											
Accounting Entity Transfers						10,262					
Total						10,262					
TOTAL PROGRAM EXPENDITURES	$68,149	$444,317	$691,118	$283,815	$1,622,596	$589,054	$6,478,044	$689,499	$1,467,252	$7,491,609	$11,416,897
GENERAL FUND											
Budgeted	$ 5,051	$465,712					$ 711,882	$713,983	$1,237,812		$ 204,173
Actual	5,012	444,317					604,533	685,541	1,233,327		196,791
Unspent Budget Authority	$ 39	$ 21,395					$ 107,349	$ 28,442	$ 4,485		$ 7,382
SPECIAL REVENUE FUND											
Budgeted	$70,094		$785,846	$288,083	$2,317,427	$655,279	$6,360,639	$126,500	$ 325,000	$8,295,602	$26,148,418
Actual	63,137		691,118	283,815	1,622,596	526,771	4,617,283	3,958	233,925	7,491,609	11,220,106
Unspent Budget Authority	$ 6,957		$ 92,728	$ 4,268	$ 694,831	$128,508	$1,743,356	$122,542	$ 91,075	$ 803,993	$14,928,312
ENTERPRISE FUNDS											
Budgeted						$ 93,658					
Actual						62,283					
Unspent Budget Authority						$ 31,375					
EXPENDABLE TRUST FUNDS											
Budgeted							$3,000,000				
Actual							1,256,228				
Unspent Budget Authority							$1,743,772				
INTERNAL SERVICE FUNDS											
Budgeted											
Actual											
Unspent Budget Authority											

	Economic Policy & Research	Local Government Audit Service	Accounting/ Management Services	Building Codes Division	Indian Affairs Coordinator	Health Facilities Authority	Economic Development Board	Mt. Science & Tech Alliance	Board of Housing	Director/ Management Services	Legal Services	Total
PERSONAL SERVICES												
Salaries	$150,625	$ 560,562	$ 129,168	$ 603,141	$ 45,808	$ 57,027	$171,200	$ 68,488	$ 261,220	$432,673	$214,287	$ 5,780,466
Other Compensation	2,075			6,000		2,050	4,650	3,600	6,650	200		102,300
Employee Benefits	29,889	108,939	24,489	129,521	9,071	11,851	29,520	11,726	53,529	78,741	40,575	1,136,914
Total	182,589	669,501	153,657	738,662	54,879	70,928	205,370	83,814	321,399	511,614	254,862	7,019,680
OPERATING EXPENSES												
Contracted Services	55,426	26,050	33,862	81,439	2,470	9,150	31,651	11,497	636,363	69,631	6,205	2,232,538
Supplies & Materials	6,657	8,242	3,205	21,369	861	3,665	6,753	3,995	4,571	11,980	3,335	176,876
Communications	7,486	16,834	6,913	26,479	7,645	4,724	14,893	4,820	27,609	12,063	9,006	1,104,359
Travel	12,416	86,605	13,974	66,852	7,316	9,516	11,683	21,027	21,982	15,032	3,669	787,323
Rent	8,165	18,331	8,746	15,251	5,462	5,349	9,775	2,659	30,293	18,897	6,162	273,446
Utilities		2,282	1,196									21,947
Repair & Maintenance	983	5,242	2,566	11,391	2,521	1,008	1,395	262	1,415	5,875	781	102,244
Other Expenses	21,632	83,243	23,986	120,418	6,602	9,357	22,801	12,956	40,124	7,456	25,652	965,873
Goods Purchased For Resale				13,261								25,056
Total	112,765	246,829	94,448	356,460	32,877	42,769	98,951	57,216	762,357	140,934	54,810	5,689,662
EQUIPMENT AND INTANGIBLE ASSETS												
Equipment	8,393	7,615	7,135	138,513	1,915	13,378	13,676	8,005	16,564	20,057	6,500	502,124
Livestock												1,600
Total	8,393	7,615	7,135	138,513	1,915	13,378	13,676	8,005	16,564	20,057	6,500	503,724
CAPITAL OUTLAY												
Buildings												3,550
Total												3,550
GRANTS												
From State Sources		1,364,933	19,681,088[1]					156,578				26,409,322
From Federal Sources												13,558,783
From Other Sources												4,739,408
Total		1,364,933	19,681,088					156,578				44,707,513
TRANSFERS												
Accounting Entity Transfers		87,767	87,208				189,042					374,279
Total		87,767	87,208				189,042					374,279
TOTAL PROGRAM EXPENDITURES	$303,747	$2,376,645	$20,023,536	$1,233,635	$ 89,671	$127,075	$507,039	$ 305,613	$1,100,320	$672,605	$316,172	$58,298,408
GENERAL FUND												
Budgeted	$276,901	$1,462,767	$ 4,636,928		$107,428		$191,321			$ 1,471	$131,198	$10,146,627
Actual	264,574	1,452,699	4,060,458		89,671		189,042				125,013	9,350,978
Unspent Budget Authority	$ 12,327	$ 10,068	$ 576,470		$ 17,757		$ 2,279			$ 1,471	$ 6,185	$ 795,649
SPECIAL REVENUE FUND												
Budgeted	$ 40,000		$15,963,000	$1,360,204				$1,963,610			$ 10,000	$64,707,702
Actual	39,173		15,763,634	1,233,635				305,613				44,096,373
Unspent Budget Authority	$ 827		$ 199,366	$ 126,569				$1,657,997			$ 10,000	$20,611,329
ENTERPRISE FUNDS												
Budgeted						$131,342	$385,682		$1,129,886			$ 1,740,568
Actual						127,075	317,997		1,100,320			1,607,675
Unspent Budget Authority						$ 4,267	$ 67,685		$ 29,566			$ 132,893
EXPENDABLE TRUST FUNDS												
Budgeted												$ 3,000,000
Actual												1,256,228
Unspent Budget Authority												$ 1,743,772
INTERNAL SERVICE FUNDS												
Budgeted		$1,012,098	$ 328,205							$744,519	$191,237	$ 2,276,059
Actual		923,946	199,444							672,605	191,159	1,987,154
Unspent Budget Authority		$ 88,152	$ 128,761							$ 71,914	$ 78	$ 288,905

[1] Consists of Local Government Block Grants and District Court Funding.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 39 through 47.

DEPARTMENT OF COMMERCE
SCHEDULE OF ADDITIONS AND DEDUCTIONS
TO AGENCY FUND PROPERTY HELD IN TRUST
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1987

Property Held in Trust, July 1, 1985	$ 83,455
Additions:	
Fiscal Year 1985-86, Nonbudgeted Receipts	275,677
Fiscal Year 1986-87, Nonbudgeted Receipts	617,320
Total Additions	892,997
Deductions:	
Fiscal Year 1985-86, Nonbudgeted Disbursements	316,953
Fiscal Year 1986-87, Nonbudgeted Disbursements	581,333
Total Deductions	898,286
Property Held in Trust, June 30, 1987	$ 78,166

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 39 through 47.

MONTANA DEPARTMENT OF COMMERCE

NOTES TO FINANCIAL SCHEDULES

FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1987

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

The department uses the modified accrual basis of accounting for the General Fund, Special Revenue Fund, Debt Service Fund, Expendable Trust Fund, and Agency Fund. In applying the modified accrual basis, revenues are recorded when they are received in cash, unless susceptible to accrual. Revenues susceptible to accrual are recorded as receivables when they are measurable and available to pay current period liabilities. Intergovernmental revenues received as reimbursements are recognized based upon the expenditures recorded. Intergovernmental revenues received but not earned are recorded as deferred revenues or liabilities to the respective governments.

Under the modified accrual basis of accounting, expenditures are recognized when the related liability is incurred except for the following items which are valid obligations under state accounting policy.

- If the appropriation provided funds to complete a given project, the entire amount of a service contract may be accrued even though the services are rendered in a fiscal year subsequent to the fiscal year in which the expenditure is accrued.

- The anticipated cost of equipment is expensed in the fiscal year in which budgeted if a valid purchase order has been issued.

- Goods ordered, but not received as of the fiscal year-end, may be accrued if the purchase order was issued prior to fiscal year-end.

- Obligations for employees' vested annual leave and sick leave are recorded as expenditures when paid.

The accrual basis of accounting is used for the Internal Service Fund, Enterprise Fund, and Nonexpendable Trust Fund. Revenues are recognized in the accounting period in which they are earned and become measurable; expenses are recognized in the period incurred, if measurable.

B. Basis of Presentation

The financial schedules were prepared from the Statewide Budgeting and Accounting System (SBAS) without adjustments. Accounts are organized on the basis of funds according to state law. The following funds types are used by the department:

General - accounts for all financial resources except those required to be accounted for in another fund.

Special Revenue - accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. Legislative appropriations are required to be spent from this fund type. This activity includes professional licensing boards as well as other boards administratively attached to the department, airport loans, local government block grant (coal tax money), highways special revenue, county land planning, local impact, banking industry regulation, building codes division, aeronautics division, video gaming, federal grants, and economic development activities such as tourism and business promotion.

Debt Service Fund - to account for accumulation of resources for, and the payment of, long-term debt principal and interest. The department uses this fund type to account for tax moneys which are used to back bonds or to make direct or guaranteed loans to areas affected by coal mining.

Enterprise Funds - to account for operations (a) that are financed and operated in a manner similar to private business enterprises -- where the intent of the governing body is that, on a continuing basis, the enterprise be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The Enterprise Funds at the department include operations of the Housing Authority, the West Yellowstone Airport, the Health Facilities Authority, the Economic Development Board, and the Montana Lottery.

Internal Service Funds - to account for the financing of goods or services provided by one department or agency to other departments or agencies of the governmental unit, or to other governmental units, on a cost-reimbursement basis. The department accounts for the Director's Office, Local Government Services, Management Services Division, and Legal Services in this fund type.

Trust and Agency Funds - to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. These include Expendable Trust Funds, Nonexpendable Trust Funds, and Agency Funds.

The Expendable Trust Fund accounts for settlement money from the Burlington Northern lawsuit. The fund was established as a result of a trust agreement between the department and Burlington Northern.

The Nonexpendable Trust Fund includes the Education Trust Fund, In-state Investment Fund (coal tax moneys), Coal Tax Loan Loss Reserve, and the BN - Geraldine Settlement.

The Agency Fund includes a consumer affairs account and receipts from horse racing exotic wagering. The horse racing money is for a bonus program for owners of Montana-bred race horses. The money is 2 percent of exotic wagers at each track; exotic is defined as any wager except for win, place, or show.

2. ANNUAL AND SICK LEAVE

Employees at the department accumulate both annual and sick leave. Employees are paid for 100 percent of unused annual and 25 percent of unused sick leave credits upon termination. Accumulated unpaid liabilities for annual and sick leave are not reflected in the accompanying financial schedules. Expenditures for termination pay currently are absorbed in the annual operational costs of the department. At June 30, 1987, the department had an approximate liability of $575,381 for annual leave and $253,985 for sick leave.

3. PENSION PLAN

Employees are covered by Montana Public Employees' Retirement System (PERS). The department's contribution to this plan was $356,788 in fiscal year 1985-86 and $369,496 in fiscal year 1986-87.

4. GENERAL FUND BALANCE

The General Fund is a statewide fund. Agencies do not have a separate General Fund since their only authority is to pay obligations from the statewide General Fund within their appropriation limits. Thus, on an agency schedule, the beginning and ending fund balance will always be zero for the General Fund.

5. NONBUDGETED ACTIVITY

The following activity is not budgeted by the department.

A.	Fiscal Year 1985-86	Fiscal Year 1986-87
Enterprise Funds		
Nonbudgeted Revenue	$60,250,375	$57,494,994
Nonbudgeted Expenditures	$54,936,375	$51,825,260

This activity is from the bonding authority (Housing & EDB). Activity is not budgeted because it is difficult to anticipate activity levels for these programs.

B.	Fiscal Year 1985-86	Fiscal Year 1986-87
Nonexpendable Trust Fund		
Nonbudgeted Revenue & Transfers In	$10,346,347	$ 9,318,096
Nonbudgeted Expenditures & Transfers Out	$11,532,726	$14,331,483

This activity is related to coal tax collections received by the Department of Revenue and transferred to the department for the credit of the Educational Trust Fund and the In-State Investment Fund. This activity is in the form of transfers and is not budgeted due to the difficulty of estimation of actual coal tax collections.

6. DIRECT ENTRIES TO FUND BALANCE

A. The direct entries to fund balance in the Enterprise Fund during fiscal year 1985-86 were made to establish fund balances for activity of the Montana Board of Housing (Housing Division) not previously recorded on SBAS. The majority of the direct entries to fund balance in fiscal year 1986-87 in the Enterprise Fund relate to the Board of Housing's activity recorded on SBAS in lump sum form at the end of the fiscal year.

B. The direct entries to fund balance during fiscal year 1986-87 in the Nonexpendable Trust Fund are primarily due to a permanent transfer of $35 million dollars from the Education Trust Fund to the General Fund. The money was transferred to the General Fund by the 1987

Legislature. The 1987 Legislature also provided for an additional permanent transfer of the $34 million from the Education Trust Fund to the General Fund during the 1989 biennium.

C. Direct Entries to Fund Balance in the Expendable Trust Fund during fiscal year 1986-87 are attributable to investment earnings originally recorded in the Montana In-State Investment Fund (a Nonexpendable Trust Fund) from fiscal year 1983-84 through 1985-86. The transfer of these moneys was made at the direction of the Governor's Office of Budget and Program Planning (OBPP). The money involved was appropriated to the Montana In-State Investment Fund under section 17-5-704, MCA. This statute, prior to amendment in 1987, also provided these moneys could not be further appropriated except by vote of three-fourths of the members of each house of the legislature. The legislature did not appropriate these moneys and, therefore, they should have remained in the Montana In-State Investment Fund. OBPP had no legal authority to direct this transfer.

7. DEPARTMENTAL PROGRAM AND FUNDING CHANGES

Transportation Division - Fiscal year 1985-86 spending authority includes $3,416,750 of federal railroad rehabilitation funds for the Geraldine branch railroad line. These funds are available on a one-time basis due to an early loan repayment by Burlington Northern Railroad as part of a settlement involving the Geraldine branch line.

Local Government Service Division - The spending authority in the General Fund decreased in the division from $1.46 million in fiscal year 1986 to $87,000 in fiscal year 1986-87. This decrease is due to the anticipated elimination of emergency grants for District Courts. District Courts began receiving state funding in fiscal year 1985-86 under Chapter 680, Laws of 1985.

Financial Division - The financial division consists of the State Banking Board and Department of Commerce personnel who are responsible for chartering, licensing, supervising, and examining state banks, savings and loans, credit unions, consumer licenses and sales finance companies. These activities are financed by the regulated institutions and accounted for in the state special revenue fund as of the beginning of fiscal year 1985-86. Previously this activity was funded by the state and accounted for in the state General Fund.

8. BONDS AND NOTES PAYABLE

A. Board Of Housing Revenue Bonds

The Montana Board of Housing (Housing Authority) is authorized to have an aggregate of $975 million of housing mortgage bonds outstanding. The bonds are payable from mortgage loan payments and investment earnings. All bonds issued to date are secured by federally insured or guaranteed mortgages. Bonds (net) outstanding were as follows:

	June 30, 1986	June 30, 1987
Single Family Mortgage Bonds	$671,060,000	$526,080,000
Multi-Family Mortgage Bonds	14,639,000	14,545,000
Total	$685,699,000	$540,625,000

Amounts reported for the Board of Housing were reproduced from their audit reports, covering fiscal years 1985-86 and 1986-87 which received unqualified opinions dated August 19, 1986 and August 28, 1987, respectively.

B. Montana Economic Development Board (MEDB)

Bonds outstanding at June 30, 1986 were as follows:

Issue	Balance June 30, 1986
Industrial Development Revenue Bonds (Pooled Loan Program) Series 1984 A - 1984 G (1)	$ 3,630,000
Industrial Development Revenue Bonds (Pooled Loan Program) Series 1985 A - 1985 L (1)	4,260,000
Municipal Finance Consolidation Act Bonds (Cash Anticipation Financing Program) Series 1985 (2)	18,575,000
MEDB Bonds Payable	$26,465,000

Bonds outstanding at June 30, 1987 were as follows:

Issue	Balance June 30, 1987
Industrial Development Revenue Bonds (Pooled Loan Program) Series 1984 A - 1984 G (1)	$ 3,560,000
Industrial Development Revenue Bonds (Pooled Loan Program) Series 1985 A - 1985 L (1)	4,160,000
Municipal Finance Consolidation Act Bonds (Cash Anticipation Financing Program) Series 1986 (2)	27,480,000
Municipal Finance Consolidation Act Bonds (Intermediate Term Capital Program) (3)	6,500,000
MEDB Bonds Payable	$41,700,000

(1) These bonds, which may not aggregate more than $75 million, are limited obligations of the MEDB payable solely from and secured by certain revenues and assets of the MEDB pledged pursuant to an indenture of Trust. The bonds do not constitute a debt, liability or legal obligation of the State of Montana. However, if the balance in the MEDB's "Capital Revenue Account A" falls below the indenture requirement, the Governor is required to request the Legislature to appropriate funds to restore the balance. The Legislature may, but is not legally obligated to, appropriate funds to correct any such deficiency. Principal payments (accrued interest to be added) are due each March 15. Series 1985 J ($665,000) was recalled on March 15, 1986 without a gain (loss) on extinguishment.

(2) These bonds were issued to provide funds for the MEDB to finance the purchase of tax revenue anticipation notes (TRANS) of participating local government units. The Series 1985 bonds were due September 27, 1986. The Series 1986 were issued on July 15, 1987. The bonds are limited obligations of the MEDB payable solely from repayments of principal and interest on local government TRANS, proceeds of a loan made to MEDB by the Montana State Board of Investments, and investment income.

(3) These bonds were issued to provide funds to participating local governments for the purpose of providing intermediate term capital to local governments. The bonds are limited obligations of the MEDB and are payable solely from payments of principal and interest on loans made to local governments, investment income, and amounts derived from an irrevocable loan agreement between the MEDB and the Montana Board of Investments.

9. NO-COMMITMENT DEBT

A. Montana Health Facility Authority (MHFA)

Bonds outstanding at June 30, 1986 and 1987 are as follows:

Issue	Amount June 30, 1986	Amount June 30, 1987
Health Care Revenue Bonds (Pooled Loan Program) Series 1985A Variable Rate Revenue Bonds	$66,900,000	$65,900,000
Billings Deaconess Hospital Series 1985 Hospital Facilities Variable Rate Revenue Bonds	18,000,000	18,000,000
BONDS PAYABLE	$84,900,000	$83,900,000

The bonds are payable solely from loan repayments to be made by health institutions pursuant to loan agreements and from funds created by the Indenture and Investment earnings thereon. The bonds do not constitute a debt or liability of the State of Montana.

Notes outstanding at June 30, 1986 and 1987 were as follows:

Issue	Amount June 30, 1986	Amount June 30, 1987
West Mont Home Health Services, Inc. Series 1985 Hospital Revenue Note	$427,522	$407,776
Revenue Notes Outstanding	$427,522	$407,776

The notes are payable solely from loan repayments to be made by health institutions pursuant to loan agreements. The notes do not constitute a debt or liability of the State of Montana.

B. Montana Economic Development Board (MEDB)

The following Stand-alone Industrial Revenue bonds were issued during fiscal year 1985-86:

Issue	Amount
Butler Creek	$ 350,000
Mt. Progress Limited	5,000,000
Winter Sports	3,200,000
Farmers Union (Cenex)	3,925,000
Total	$12,475,000

One Stand-alone Industrial Revenue bond was issued in fiscal year 1986-87:

Zenith Management Company	$ 5,130,000

The bonds are payable solely from assets and revenues of the borrowers. The bonds do not constitute a debt or liability of the State of Montana.

10. ADDITIONAL PROGRAMS

Programs transferred to the department include the following:

A. Video gaming from the Department of Revenue on April 1, 1987.

B. Tramways from the Department of Administration on July 1, 1987.

C. Board of Investments from the Department of Administration merged with the Montana Economic Development Board on July 1, 1987.

D. Montana Outfitter's Council from the Department of Fish, Wildlife, and Parks on October 1, 1987 which became the Board of Outfitters.

AGENCY RESPONSE

DEPARTMENT OF COMMERCE

TED SCHWINDEN, GOVERNOR

STATE OF MONTANA

1424 9TH AVENUE

HELENA, MONTANA 59620-0401

May 16,1988

RECEIVED

MAY 1 1988

MONTANA LEGISLATIVE AUDITOR

Mr. Scott A. Seacat
Legislative Auditor
State Capitol
Helena, MT 59620

Dear Mr. Seacat:

Enclosed is our response to the final report of the financial audit conducted by your office on the Department of Commerce.

Since the last departmental audit, more programs have been added to the department. At the same time, legislation took effect which increased the accounting and bookkeeping complexity through the requirement to account in accordance with generally accepted accounting principles. Considering that these changes were handled with no increase in staff, we are pleased with your assessment of our improvement.

In preparing our response to the audit, we have attempted to follow the guidelines prescribed by your office. I trust the form and content will meet with your approval.

Very truly yours,

Keith L. Colbo

Keith L. Colbo, Director

KLC/ms

DEPARTMENT OF COMMERCE
RESPONSES TO AUDIT RECOMMENDATIONS

RECOMMENDATION #1
We recommend the department implement procedures to ensure the gross housing rents comply with federal regulations.

RESPONSE
The department concurs with the recommendation. The department now has a new computer system on line which checks all gross rents against property rents and utility allowances, eliminating errors in calculations.

RECOMMENDATION #2
We recommend the department adequately safeguard housing assistance payment "hold" warrants.

RESPONSE
The department concurs with the recommendation. The Housing Assistance Bureau is in the process of ordering a desk with the security locking system necessary for safeguarding warrants. At this time, warrants are being locked in another desk.

RECOMMENDATION #3
We recommend the department implement procedures to ensure monthly housing assistance payments are proper.

RESPONSE
The department concurs with the recommendation. The Housing Assistance Bureau now calculates all payments through the new computer system. This system reconciles monthly payments with input documents.

RECOMMENDATION #4
We recommend the department establish accounts receivable on its accounting records for all Section 8 housing assistance overpayments.

RESPONSE
The department concurs with the recommendation. The Housing Assistance Bureau is now setting up accounts receivable in the new computer system in order to allow tracking of over-payments.

RECOMMENDATION #5

We recommend the department compile financial information using a consistent cutoff date for the annual Community Development Block Grant performance reports.

RESPONSE

The department concurs with the recommendation. Beginning with the 1987 report, a consistent cutoff date of June 30 was used, and will continue to be used.

RECOMMENDATION #6

We recommend the department:

A. correct the error on the Section 8 report.

RESPONSE

The department concurs with the recommendation. Correction of the $693 error appearing on the June 30, 1987 Section 8 Certificates Financial Report will be reflected on the report for the period ending June 30, 1988. This will be completed by Sept. 1, 1988.

B. submit reports within the time frame established by the federal grantor agency.

RESPONSE

The department conditionally concurs with the recommendation. The department will submit federal financial reports on all projects as soon as possible after the end of the fiscal period. Section 8 Financial Reports due during the fiscal year-end period will be completed as soon as possible, within constraints on personnel and subject to time available during the state fiscal year-end closing period.

RECOMMENDATION #7

We recommend the department implement procedures to ensure compliance with contracted service laws and regulations.

RESPONSE

The department concurs with the recommendation. The department initiated new internal contract procedures after receipt of the state contracted services audit. The department has since received the new Management Memo clarifying contracted services. Interim changes have been made to department policy to comply with the Management Memo. Management Services staff will be trained on the new state policy by June 16, 1988, and final changes to department contract policy will be in place by July 1, 1988.

Concerning the finding that 35 of 65 contracts reviewed did not contain required contract clauses, it should be noted that not all provisions apply to each contract. The

department has taken the position that inapplicable provisions will not be included in contracts.

RECOMMENDATION #8

We recommend the department continue to review its indirect cost proposals to ensure all carry-forward adjustments are included.

RESPONSE

The department concurs with the recommendation. We will continue to review the indirect cost proposal to ensure it is prepared properly. The amount of undercollection in fiscal year 1985-86 is being collected in fiscal year 1987-88.

RECOMMENDATION #9

We recommend the department implement a control system which will provide assurance of compliance with applicable statutes and administrative rules.

RESPONSE

The department conditionally concurs with the recommendation. A control system to monitor compliance with statutes and rules would be a positive benefit to our operation. Our ability to implement this recommendation is subject to existing staff and workloads. Within these constraints, staff attorneys will be directed to review applicable statutes and rules with program personnel periodically, with emphasis on compliance.

RECOMMENDATION #10

We recommend the department:

A. comply with established internal control procedures to ensure accurate processing of financial data and adequate safeguarding of assets.

RESPONSE

The department concurs with the recommendation. We will work with program personnel at fiscal year-end 1988 to ensure compliance with internal control procedures.

B. implement additional internal controls over cash receipts to ensure revenue is recorded in the proper fiscal year.

RESPONSE

The department concurs with the recommendation. We will notify all program personnel by June 15, 1988 concerning procedures for recording revenue at year-end to ensure that it will be recorded in the proper year.

RECOMMENDATION #11

We recommend the department continue to work towards maintaining its accounting records in accordance with state law.

RESPONSE

The department concurs with the recommendation. We will continue to work toward this goal in all departmental financial record-keeping.

RECOMMENDATION #12

We recommend the department:

A. seek legislation to clarify the lottery statutes.

RESPONSE

The department concurs with the recommendation regarding Sections 23-5-1016(10) and 23-5-1017(3), MCA, but does not concur regarding Sections 23-5-1026 and 23-5-1027(1)(a), MCA.

The Lottery will seek legislation to clarify Section 23-5-1016(10), MCA to make it clear that the face value of tickets distributed to sales agents is the base for the 5% commission. The Lottery will seek legislation to clarify Section 23-5-1017(3), MCA to make it clear that tickets and chances may not be purchased <u>on credit</u> from a sales agent.

The Lottery believes that Section 23-5-1026 and Section 23-5-1027(1)(a), MCA, are definitive. The Lottery believes the statutes are clearly written and that it was never intended that the same base be used for prize payouts as for commissions and administrative expenses.

B. recognize prize expense related to the free ticket prizes.

RESPONSE

The department conditionally concurs. The Lottery decided to account for free tickets as a reduction in revenue and a cost of goods sold, rather than as revenue and expense because both methods have resulted in unqualified audit opinions in other states, and recognition of a free ticket as a dollar expense requires recognition of a dollar of revenue. The Lottery determines the number of free tickets in a game. Using the revenue and expense method, the number of free ticket prizes increases revenues without increasing sales. An artificial change in revenues also happens if the number of free ticket prizes decreases. The recognition of free ticket prizes as a dollar expense and a dollar revenue does not represent a conservative accounting approach.

The Lottery is providing complete information by recognizing the exact number of free tickets in a footnote on the

financial report and by recognizing the expense of printing the tickets as a cost of goods sold. Although the Lottery does not believe free tickets are a one dollar prize expense, it is willing to continue to study the prize expense issue based on decisions made by an authoritative body of the accounting profession. If it is determined that the prize expense is the face value of the tickets, the Montana Lottery will discontinue the use of free tickets and substitute a one dollar prize. If the accounting profession issues an opinion that the prize expense is higher than the cost of goods sold, the Lottery will adjust its accounting methods.